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**EUROPEAN ECONOMIC INTEGRATION AND HUMAN DEVELOPMENT:
THE CONSEQUENCES OF REGIONAL INTEGRATION**

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**Thesis presented to the
School of Graduate Studies and Research
In Partial Fulfilment of Requirement
for a Master of Arts in Sociology**

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November 1996



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The Objective of Development is People. The process of development may be measured in economic aggregates or technological and physical achievements. But the human dimension of development is the only dimension of intrinsic worth (Haq and Kirdar 1986: 1).

ABSTRACT

This study examined the effects of European economic integration in Portugal. It put forth the hypothesis that Portugal's participation in the European economic integration process has played a major role in the maintenance of political stability and in the growth of the Portuguese economy. This in turn, has to an extent, been a causal factor in the improvement in the state of the human condition through financial aid in the form of Community Structural Funds. Specific socio-economic indicators were used as a means of evaluating the human development level before and after regional integration. Since EU accession, there is evidence of a high correlation between Portugal's participation in the regional integration process, and a rise in the economic and human development level of the population. Hence, it may be assumed that the policies utilized in fostering economic integration have had a positive effect on the rate of economic progression. It has also influenced to a significant degree, the rise in the level of human development.

ACKNOWLEDGEMENTS

I would like to acknowledge the guidance of my Thesis Director, Professor Victor M.P. Da Rosa. As one of his longtime students, Professor Da Rosa has continuously expressed his confidence in my academic abilities. This was most evident in his belief that I could achieve a Master's Degree within a French programme.

I would also like to thank my husband, immediate family, and my two close friends Dion and Rose. Their friendship and support were greatly appreciated. A special thank you is extended to a dear friend for his computer expertise. Thank you Dion.

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ABBREVIATIONS

AIDS	- Acquired Immune Deficiency Syndrome
CAP	- Common Agricultural Policy
CET	- Common External Tariff
EC	- European Community
EC-9	- The former nine European member states
ECB	- European Central Bank
ESCB	- European System of Central Banks
ECSC	- European Coal and Steel Community
ECU	- European Currency Unit
EEC	- European Economic Community
EFTA	- European Free Trade Agreement
EMS	- European Monetary System
EMU	- European Monetary Union
EU	- European Union
EURATOM	- European Atomic Energy Community
FEOGA	- Fundo Europeu de Orientacao e Garantia Agricola
GATT	- General Agreement on Tariffs and Trade
GDP	- Gross Domestic Product
GNP	- Gross National Product
HDI	- Human Development Index

IMF	- International Monetary Fund
NA	- Not Available
NAFTA	- North American Free Trade Agreement
NATO	- North Atlantic Treaty Organization
NCHS	- National Centre for Health Statistics
NIC	- New Industrial Country
NIP	- New Industrial Policy
NTB	- Non-Tariff Barriers
OECD	- Organization for Economic Co-operation and Development
OEEC	- Organization for European Economic Co-operation
PPP\$	- Purchasing Power Parity
SEA	- Single European Act
SIDS	- Sudden Infant Death Syndrome
SME's	- Small and Medium Sized Economies
UK	- United Kingdom
US	- United States
USA	- United States of America
WEU	- West European Union

SYMBOLS

% - **Percent**

Π - **Pi**

ϵ - **Epsilon**

PREFACE

The European Union (EU) still has to attain a federalist state, that is, it has yet to achieve its ultimate goal – to create a United States of Europe. Nevertheless, it has succeeded in establishing itself within the international arena as an entity with one voice; with one external policy, with one parliament above all national assemblies, with a single European budget whereby all national budgets are subordinate; with common and coordinated industrial and agricultural policies; and with Community tribunals superior to all national tribunals (Mello 1990: 114).

The focal point is not on how long it has taken for the EU to accomplish something, but what it has accomplished so far. Hence, the significant point is that the EU will some day be capable of transforming the concept of political union into reality. It is important to take into account not necessarily the speed but the direction that the European economic integration process has taken. Therefore, the direction that the EU has taken thus far has allowed it to continue correcting, to the best of its ability, the existing disparities localized in the less developed regions of its European space. Even though a return to arms may be very unlikely to occur nowadays, the possibility of an "economic invasion" remains a reality, even more so if one does not wish to participate in the economic integration process. Therefore, to be part of an integrated area reduces this threat. Hence, it would be in the best interest of the less developed member states to promote integration so that they too, may have some leverage in

their future. Consequently, the sacrifices that the periphery member states may have to endure in the short-term, will be worth it in the long-run.

In reality, where would Portugal be, and what could it accomplish had it not joined the European conglomerate? European financial assistance aside, to exclude Portugal from the European economic integration process would in essence, be to maintain Portugal in a state of underdevelopment and isolation. Its exclusion from the European integration process would eventually force her to the very European periphery. On that account, Portugal's exclusion would mean to neglect itself from having a relevant opinion within the international arena in the European context. Therefore, Portugal's exclusion from the European economic integration process would only further aggravate and therefore make it difficult for the country to modernize and develop.

The time which has elapsed since Portugal's "full participation" in the integration process through EU accession is still historically short. It is from this viewpoint that any evaluation of the impact of integration in Portugal must be made only on the basis of the experience accumulated so far and therefore, should not be taken in absolute terms. It is for this reason that an analysis of the impact of integration beyond the present has not been included.

Portugal continues to be one of the least developed members of the EU, however, one has to take into account Portugal's historical difficulties. Any analysis of the effects of

integration in Portugal would and should be done by comparing Portugal's past and present level of development, that is, before and after integration. An examination of the level of development within Portugal based solely in relation to other member states would be unfair.

The main objective of the thesis is to assess the impact of European integration on Portugal's level of human development. In other words, has the European integration process had a positive impact on the Portuguese economy and, has this resulted in an improvement in the state of the human condition in Portugal? Specific socio-economic indicators are used as a means of evaluating the human development level before and after integration. This method will ascertain whether European economic integration has had a positive effect on the Portuguese economy and on the state of the human condition. This hypothesis is made with the hypothetical alternative of Portugal leaving the European Union (EU). This alternative may be perceived to be somewhat simplistic. However, the perspective taken is more workable within the scope of this thesis than making assumptions of Portugal's economic and human development level had it not participated in the European economic integration process.

This study is comprised of a preface, four chapters, and a conclusion. The first and second chapters comprise the theoretical construct of the study: human development theory and economic integration theory. The third chapter constitutes an analysis of the European Union's ability to operate as a single entity in order to contextualize its position within the world economy. The fourth chapter is a case study of Portugal. It focuses on the effects of EU membership on the Portuguese economy and on its level of human development. This

final chapter will incorporate the following elements: a brief historical overview of Portugal, restricted to the Salazarian dictatorship; the effects of planned constraint on the economy and its consequences on the state of the human condition; the effects of European integration on the Portuguese economy and on its level of human development. The conclusion is a summation of the objectives of the research.

CHAPTER 1 - HUMAN DEVELOPMENT THEORY

I. Introduction

Development is a value judgement. People do not necessarily view development from the same perspective. Therefore, some might perceive development as modernization – countries ranked according to how similar they are in comparison to the most advanced countries. In other words, its degree of modernization. Unfortunately, this perception is somewhat ethnocentric. For many, development is a reflection of economic growth. This economic perspective is more concerned with "growth" than "progress," yet this view equates growth with progress. Others may view development from the human dimension. This perspective focuses on ameliorating the welfare of a population. It is the process of gradual, long-term change in the conditions affecting human life. It takes into account non-economic factors such as health, working conditions, and political freedom. It focuses on the human dimension of development reflected in living standards, education, equality of opportunity, political and civil rights and so on. The human perspective sheds light on those social conditions of a population that the economic perspective cannot. Thus, economic growth in itself is an imperfect measurement of human progress. However, it is an essential means for enabling development.

The high human development experienced in most industrialized countries is an indication that the human element in the development of a population is of vital importance

and that it should be perceived as the primary objective of economic development as well as a crucial input to all economic activity. Thus, the human dimension must be taken into account when evaluating economic performance. This may be achieved by using indicators that explicitly and centrally incorporate the human dimension in order to assess a country's level of human progression (Haq and Kirdar 1986: 3). Those social indicators that measure the human dimension of development are made up of a combination of physical and non-physical indicators. Physical indicators reflect the health and well-being of a population such as infant mortality, literacy rates, rates of morbidity and so on. Non-physical indicators measure achievement in employment, social cohesion, social stability, and political liberty. Hence, the primary objective of economic activity is human progress because people, in essence, are the ultimate productive resource. However, it is important to note that there is some disagreement as to which indicators should be used to measure human welfare (Haq and Kirdar 1986: 29).

Before one can improve the social conditions of a population, it is essential to first measure progress correctly. No one indicator alone is sufficient in measuring the well-being of a population. The welfare of a people is multidimensional. Therefore, by merging several indicators that reflect longevity, knowledge, and standard of living, one is able to come up with a better assessment of human progress. In 1990, The United Nations Development Programme (UNDP) created such an index, presently referred to as the Human Development Index (HDI).

II. The Human Development Index

The HDI is a relatively new development measure. It is an improved social statistic measure that focuses on the human dimension of development, developed to ensure that people's needs are met through development planning. The purpose of this index is to give a realistic and multidimensional picture of human progress. The HDI ranks countries on a comparative level, according to how far they have progressed and how much more they have to go before attaining the highest level of progression. Longevity, knowledge and standard of living are the facets reflected in the components that make up the index -- life expectancy, educational attainment and national income.

The HDI has been improved since its first introduction in the Human Development Report 1990. The original index combined three indicators: life expectancy, educational attainment, and national income. Changes have since been made to the educational factor, to the national income factor of the index and, two disparity-adjusted HDI's have been introduced to better assess human development at all levels.

Disparity-adjusted HDI's depict how socio-economic inequalities within a country may abate the country's HDI rank. Thus, a more egalitarian country will have a higher rank as opposed to a country that is characterized by greater disparities. Gender-adjusted and income-adjusted disparities are the two disparity adjusted HDI's. The desegregation of gender and income are of great importance since national averages alone can be misleading. In addition to

the two disparity-adjusted HDI's, the educational factor previously measured through adult literacy rate, is now reflected in the combination of both adult literacy rate and mean years of schooling. National income on the other hand, is now measured in purchasing-power-adjusted dollars (PPP\$) to reflect not just income but what that income can buy (UNDP 1994: 91).

The underlying principle of the HDI "is based on a country's position in relation to a final target —expressed as a value between 0 and 1" (UNDP 1994: 92). Therefore, a country with a value of 0.5 or less, indicates a low level of human development. However, a country with a value between 0.5 and 0.8 reflects medium human development while a country with a value of 0.8 or more is characterized as having reached a high level of human progression.

Table I

Fixed Maximums and Minimums for HDI Values

	Minimum	Maximum
life expectancy (years)	25	85
adult literacy (%)	0	100
mean years of schooling	0	15
income (real GDP per capita) PPP\$	\$200	\$40 000

Note: Maximums are those observed historically, going back about 30 years.

Minimums are the limits of what can be envisioned in the next 30 years.

Source: UNDP 1994: 92.

III. The Importance of Desegregating the HDI

Even though the HDI is far better in monitoring the human progress of a country in comparison to other statistical reports, a country may have a high overall ranking yet it may have a low score on one indicator which is offset by a high score on another one of the three indicators. Thus, a disparity-adjusted index is necessary. According to the Human Development Report 1994, the two most significant differences within the overall HDI score for any country, is gender-disparity adjusted HDI and the income distribution- adjusted HDI (UNDP 1994: 94).

Gender inequality may be illustrated by adjusting the HDI ranking for gender disparities by "expressing the female value of each component as a percentage of the male value. These percentages can then be calculated separately for income, educational attainment and life expectancy -- and then averaged to give an overall gender disparity factor. A country's overall HDI can then be multiplied by this factor to give a gender disparity-adjusted HDI figure" (UNDP 1994: 96). It is important to note that the gender adjusted HDI values of both industrialized and developing countries tend to worsen. This, unfortunately is due to the fact that, universally, women's status is still below that of men's. However, some countries experience an improvement in their ranking while others worsen when the HDI is adjusted.

It has been previously mentioned that the HDI represents three indicators whose statistical value presumably is a reflection of longevity, educational attainment, and standard of living. In addition, the average of the three indicators, is supposedly a measurement of, if not an approximation to, a particular level of human development.

When the HDI was first introduced in 1990, it was acknowledged that it would be subject to future revisions. Hence, the current index may be further improved by replacing life expectancy with infant mortality rate, and national income with social security benefits as percentage of GDP.

The following is not intended to provide definitive answers concerning health measurement and the measurement of the standard of living of a population, but suggests two indicators that better illuminate the development level of a society. It first aims to elucidate that social security benefits as percentage of GDP is a better indicator in measuring the standard of living of a population than national income. Second, it suggests that health status should replace longevity by substituting life expectancy with infant mortality rate. Third, it concludes by making analytical comparisons between the old HDI and the newly revised HDI.

IV. The Problem With National Income As An HDI Indicator

Before highlighting the problems associated with national income as an indicator of human development, it is necessary, not so much define "standard of living" in as much to clarify the perspective taken. The term "standard of living" is a broad category and reflects a wide range of definitions. A high standard of living for one individual might translate into high income, a relatively large house, and a number of expensive cars. A high standard of living for another person may be a reflection of a good health care system, easy accessibility to a good education, and equal opportunities in the workplace. Hence, it is important to note that the term "standard of living" in this thesis refers to the quality of life and not necessarily to pure "economic attainment." Therefore, the following critique of national income as an HDI indicator, followed by the argument supporting social security benefits as the suggested indicator, are taken from this perspective.

In line with the materialism of our society, the economic perspective, frequently measured by national income, continues to be the most popular indicator in measuring the development level of a population. Unfortunately, this predominant perspective is one-sided

and does not reflect the human dimension considered intrinsic to human welfare (Jahoda 1982

:2). This is reflected in E.L. James' statement:

The level of economic activity taking place in an economy is of vital importance because it determines the amount of goods and services that will be produced in the economy. That in turn, gives an indication (but only an indication) of the economic (material) well-being of a population. (James 1987: 381)

Hence, even though James states the significance of the economic perspective (measured by national income), he indirectly points to the fact that this view in itself is not sufficient as an indicator which reflects a population's standard of living and, therefore, of human development since it merely gives an indication of the material welfare of a population.

Observations that contradict the expected association between national income and mortality rates, that is, the higher the income, the lower the mortality rate, is explicitly shown in the succeeding table. The countries chosen are all ranked as experiencing a medium level of human development according to the Human Development Report of 1992.

Table II
Real GDP per capita and Infant Mortality Rate

Country	Real GDP Per Capita (PPP\$) 1990	Infant Mortality Rate (per 1000 live births) 1990
South Africa	\$ 4 865	67
Brazil	\$ 4 718	60
Columbia	\$ 4 237	50
Surinam	\$ 3 927	38
Panama	\$ 3 317	22
Jamaica	\$ 2 979	16

Source: UNDP 1992: 134, 148; UNDP 1993:190

The table above clearly demonstrates that higher income does not necessarily translate into lower infant mortality rates. It depicts a positive correlation where higher income translates into higher infant mortality rates. For example, as shown in the table, South Africa not only has the highest GDP per capita (in the context of the six countries chosen for the purpose of illustration), but also has the highest infant mortality rate. This is followed by Brazil with the second highest GDP per capita along with the second highest infant mortality rate. This pattern of positive correlation between these two indicators continues throughout the chart. Hence, it is safe to say that national income as an HDI indicator does not necessarily reflect a population's standard of living and therefore, provide a realistic measurement of human development.

V. Social Security Benefits Expenditure As An HDI Indicator

Unlike national income, social security benefits expenditure (as percentage of GDP) as an indicator, is multi-dimensional. Social security benefits expenditure (as percentage of GDP) shows how much a government is willing to invest in programs or systems for the purpose of fulfilling a range of objectives. These objectives in turn, directly affect the standard of living of a population.

Social security constitutes many programs that vary from country to country. However, it is commonly referred to as programs provided through government funding for the purpose of ensuring economic security. Programs are generally classified as short-term or long-term risks, which in turn, are dependent on the duration of the payment for each individual case. Short-term risks generally include: unemployment benefits, sickness benefits, medical care, and maternity benefits. Long-term risks generally include: old age benefits, survivor benefits, disability benefits, and family allowances. Industrial benefits may be classified as both long-term or short-term. In addition, it is important to note that the classification of programs is dependent upon the country in question (Myers 1975: 5).

Social security serves the ultimate purpose of meeting the needs of those groups in society that are most vulnerable and most likely to be poor. These groups normally constitute the elderly, the chronically sick and disabled, the unemployed, and single parents (Spicker 1993: 60).

In general, the two prevailing problems that the elderly face today are the fact that first, they are too old to continue to be active members of the labour force, and second, they do not have the necessary income that will support them for their remaining years. In most cases, a senior citizen's economic resources diminish as they grow older. This, unfortunately, is compounded by their increased need of medical care which, results in higher medical costs. For the elderly, the validity of social security is reflected in the fact that their main source of income is social security (Steuerle and Bakija 1994: 144).

More than half of those who are chronically sick and physically challenged are in their senior years and are poor for the most part, financially struggling because they can no longer work. For the young physically challenged adult, employment is imperative in establishing their income level. Unfortunately, for those who are active participants in the labour force, generally earn less in comparison to non-physically challenged individuals. This income disparity is further compounded by the fact that physically challenged individuals may have special needs which incur extra expenditure in comparison to non-physically challenged people. Such expenditures include items from the chemist, home services, and hospital visitations (Spicker 1993: 62).

Every generation is faced with that personal catalyst referred to as unemployment. Its causes vary from generation to generation. In the 1930's, excess supply and little demand greatly contributed to the economic depression. In the 1970's, unemployment rose due to the large number of baby-boomers entering the workforce (Kates, Greiff and Hagen 1990: 3).

From an economic standpoint, unemployment means the loss of the provision of income for daily essentials such as food and shelter. Hence, for the unemployed individual who has no one to turn to for financial assistance, the lack of social security programs such as unemployment insurance, may greatly affect his/her well-being.

The consequences of unemployment are dependent upon the time frame they are situated (historically dependent). Before World War Two, the consequences of unemployment were centred on material deprivation such as starvation and malnutrition. Nowadays in most industrialized countries, the threat to physical survival has been curtailed due to government provisions such as social security programs . However, the threat to physical survival is still quite evident in some developing countries.

The majority of single parents today are young females who are responsible for child care and are unable to work. Those who can work, earn relatively less than their counterparts and may be entitled to less benefits. Income disparities and child care responsibilities are two predominant factors contributing to the relatively low human development status of this particular group in comparison with the rest of society.

It is safe to conclude that social security benefits expenditure (as percentage of GDP) as an indicator of human development, touches upon those aspects of human social life that national income cannot. The following table illustrates how Real GDP per capita as an

indicator of human development, can be misleading and too aggregated in its interpretation as an indicator of human progression.

Table III

National Income, Social Security, and Infant Mortality

Country	Real GDP per Capita (PPP\$) 1990	Social Sec. Exp. (% GDP) 1985-90	Infant Mort. Rate (per 1000 live births) 1990
United States	21 449	12.6	9
Switzerland	20 874	13.3	7
Canada	19 232	18.8	7
Sweden	17 014	33.7	6

Canada	19 232	18.8	7
Ireland	10 589	19.9	7

United States	21 449	12.6	9
Spain	11 723	13.4	8

Sources: World Bank 1992: 273; UNDP 1993: 190; UNDP 1994: 196

Note: The countries chosen are all categorized as experiencing a high level of human development according to the United Nations Development Programme.

The above table clearly depicts the most obvious problem associated with the variable "Real GDP per Capita," that is, it is one-dimensional. As an indicator of human development, it functions as a "smoke screen" in its inability to shed light on those human factors intrinsic to

human life. For example, taking into account the United States, Switzerland, Canada, and Sweden, one detects a positive correlation between national income and infant mortality – as the real GDP per capita increases, so does the infant mortality rate. This in itself is an indication that national income as a measurement of human development is uni-dimensional. It is incapable of shedding light on the possible reasons or causes for the positive correlation between the two variables. In contrast, social security benefits expenditure may shed light on the positive correlation seen between the other two variables – the greater the expenditure of the GDP on social security benefits, the lower the infant mortality rate.

The GDP's inapplicability as a measurement of the human dimension of development may be further clarified when comparing countries with similar infant mortality rates and yet different GDP's. For example, Ireland's GDP is nearly half of that of Canada's, yet they have identical infant mortality rates. The pertinent question to be addressed is: why do countries with large income discrepancies experience similar infant mortality rates? The answer may lie in those socio-economic factors which affect the outcome of birth. Social security benefits expenditure (as percentage of GDP) is a socio-economic indicator that may be the key factor in the attempt to answer the above question. As previously noted, both Canada and Ireland experience similar infant mortality rates yet, there is a significant discrepancy in their national incomes. However, both countries invest similar percentages of their GDP toward social security benefits (the same pattern emerges when one compares the United States with Spain). Hence, the "socio-economic status" of a population is, to a certain degree, dependent upon

how much (in percentage terms) a government is willing to spend of it's GDP on social security benefits.

VI. The Problem With Life Expectancy As An HDI Indicator

Health is an essential dimension of human development. Unfortunately, this dimension is not presently reflected in the HDI – longevity is. The question raised here is what does longevity, expressed through life expectancy tell us? Not much. Life expectancy, defined as "the length of life in years that can be expected for a particular age group at a given time" (Larson 1991: 24), is too insensitive and too aggregated, in essence, it is one-dimensional as an indicator. According to Larson, life expectancy figures tend to remain constant within a particular age range and thus, as an indicator:

- Do not measure the predominant patterns of health problems that exist at a given time in a population;
- Do not address the causes that affect the life expectancy of a population;
- A rise in life expectancy does not necessarily reflect a rise in the health status of a population. For example, a rise in life expectancy may raise the prevalence of disability, morbidity, and chronic diseases in a population;
- Life expectancy does not allow for a realistic comparison among countries where the life expectancy differs by only a few years (Larson 1991: 24).

Larson's statement may be further clarified if one were to compare life expectancy and infant mortality at an international level. The following table consists of six countries which

have been classified into three specific income categories: high income economies, upper-middle income economies, and low income economies. Life expectancy and infant mortality rates are given for each country.

Table IV

Country	Life Expectancy 1992	Infant Mortality Rate (per 1000 live births) 1992
High Income Economies		
Ireland	75	5
Belgium	76	9
Upper Middle Income Economies		
Portugal	74	9
Puerto Rico	74	13
Lower Middle Income Economies		
Jamaica	74	14
Albania	73	32

Sources: World Bank: 162-163, 214-215

Table IV clearly illustrates how life expectancy as the HDI health indicator can be misleading and too aggregated in its interpretation as a measurement of human development. This is consistent when comparing countries within the same income groups and between different income groups. For example, both Jamaica and Albania are classified as lower middle income economies with similar life expectancy rates, however, Albania has almost double the infant mortality rate -- a difference of eighteen more infant deaths per one thousand live births. The same could be said with regard to Portugal and Puerto Rico. Both are classified as upper middle income economies with identical life expectancy rates, yet Puerto Rico has a higher infant death rate.

The "masking" effect of life expectancy as an indicator of human development is evident when comparing countries with similar life expectancy rates but classified under different income categories. For example, Portugal and Jamaica have identical life expectancy rates, yet Jamaica's infant mortality rate exceeds that of Portugal's. The same is true when comparing Ireland and Jamaica. Ireland's life expectancy rate exceeds that of Jamaica's by only one year, however, Jamaica's infant mortality rate is more than double that of Ireland's.

The aggregated effect of life expectancy as an HDI indicator is most evident when comparing the country with the highest infant mortality rate to the country with the lowest death rate. According to the countries listed, Ireland has the lowest infant mortality rate of five infant deaths per one thousand live births. In contrast, Albania has the highest infant death rate of thirty-two infant deaths per one thousand live births. What is striking is the fact that both Ireland and Albania share similar life expectancy rates (a difference of two years), yet not only are they classified under different income categories, but Albania's infant mortality rate is five times greater than that of Ireland's (twenty-seven more deaths per one thousand live births).

Life expectancy as a human development indicator does not reflect the possible existence of economic and social conditions that may prevail in a particular society. It does not alert policy makers of those hidden conditions that victimize an individual's quality of life.

VIII.

Infant Mortality As An HDI Indicator

The newborn child feels the impact of all the forces in his environment. His chances of survival and healthy development depend of course on his congenital equipment, but only in part; to a very large measure they turn on such external influences as the wealth of his parents and their capacity to take advantage of the medical knowledge and social services available for his welfare. The sum total of all these factors – of inborn susceptibilities and resistances and external supports and stresses – find expression in the infant mortality rate, the trend of which thus provides ... an instrument of precision in the measurement of human progress (Titmus 1943: 5).

The assured continuance of human progression is dependent on the children of the present. Hence, the perpetuity of progress in health care services, social programmes, and reforms on child welfare regulations are necessary. The vital question that needs to be addressed is how does one "measure" the progression of factors such as those mentioned above, or how do we measure an infant's well-being, in essence, how do we measure a population's quality of life?

The infant mortality rate is multi-dimensional as a measurement in human development. It not only gives a better health profile of a population in comparison to life expectancy, but also reflects the socio-economic factors that are the underlying causes of human deprivation. Such factors include: the inaccessibility to health services, safe water, or

sanitation, malnutrition, illiteracy, and financial constraints to name a few. Infant mortality may be defined as:

A combination of specific statistics that takes into consideration the number of infants who die in the first 28 days of life (neonatal death rate) plus the number of deaths attributed to infants from 28 days to one year of life (post neonatal death rate). These are calculated per 1000 live births (Stanton 1990: 24).

A high correlation exists between neonatal deaths, low birth weight, and with factors that occur during pregnancy, delivery, and within the first few weeks of life. In this period, various environmental factors directly influence an infant's birth weight. Such factors include: maternal nutrition and health practices; neonatal care; and quality of delivery.

The post neonatal period is associated with malnutrition, sanitation, inaccessibility to health services, and unsafe living conditions. For example, there is a greater increase in infant deaths beyond the 28 days after birth due to infectious diseases because of unsanitary living conditions that the infant is brought into (Stanton 1990: 24).

In the neonatal period, there are two major causes of death. The first leading cause of death are birth defects or congenital anomalies linked to abnormalities of the heart, circulatory system and respiratory system. The second leading cause of mortality includes those maladies associated with premature delivery and low birth weight. The frequent underlying factors associated with the second leading cause of infant mortality include: the lack of prenatal care due to economic constraints; the inaccessibility to health care services; and the lifestyle of the expectant female. In the post neonatal period, Sudden Infant Death Syndrome (SIDS) is the

first leading cause of death followed by congenital anomalies. Accidents are the third leading cause of death followed by pneumonia and influenza as the fourth cause, and the fifth cause is septicemia (Stanton 1990: 26).

A lack of prenatal care is a major factor that affects the outcome of birth. In some cases, pregnant women may not have access to medical care due to economic barriers, or they may simply not be aware of the importance of prenatal care or its availability. Other reasons for not seeking medical care include inadequate transportation and child care services. A successful intervention during delivery is highly dependent on whether or not the expectant mother has sought prenatal care. Prenatal care allows physicians to deal with those otherwise foreseeable complications associated with pregnancy, labour and delivery.

Sexually transmitted diseases is another significant factor contributing to low birth weight, premature births, and birth defects that may cause other conditions that result in infant death soon after birth or later on causing physical disability. This specific factor reflects the lack of education on the part of the expectant mother. The case of AIDS is a good example of the dangers associated with poor or little education whereby, it is through ignorance that this disease finds its way to the next unborn generation (Stanton 1990: 33).

Drugs and alcohol significantly contribute to infant mortality. Addiction to such substances may be passed on to the developing fetus. This transmission may cause birth

defects with a good possibility of causing death, low birth weight, and, if the infant survives, it must deal with the addiction and withdrawal.

Poor nutrition greatly contributes to low birth weight and other infirmities which the infant must struggle with. An inadequate diet may be due to poverty or the expectant mother's neglect to seek prenatal care. Finally, stress, inadequate social support systems, and smoking have a negative impact on the developing fetus and its chances of survival (Stanton 1990: 34).

Infant mortality is a reflection of many deep-rooted social problems. It is not merely a statistic that reflects the biological death of an infant at birth, but explains other social maladies that society has yet to deal with and resolve. This indicator reflects a society's effectiveness in dealing with and monitoring child abusers; its willingness to guarantee the survival of its future generation by educating its present generation and by making access to health care possible and attainable to all segments of society.

Poverty is a social condition created by Man where all nations, industrialized or developing, must deal with on a daily basis. Poverty is a significant contributor to infant mortality. According to Stanton (1990:122):

Of all the major industrialized countries, our poverty rate in the United States is two to three times higher (Children's Defense Fund, 1989). Of all the problems we have discussed, poverty is the most pervasive and it overlaps many of the other factors we've addressed. The truth is, our poorest children are more at risk of death.

Hence, one is inclined to ask then, why is it that the United States ranks one of the top ten of the HDI for industrialized countries?

VIII. The Suggested Human Development Index

It has been previously mentioned that the HDI is an improved social statistic with the aim of portraying a realistic and multi-dimensional picture of human development. However, the HDI itself is a relatively new development measure, and therefore, is subject to improvements. Therefore, in order to attempt to answer the above stated question, it is suggested that the present HDI be further modified and, thus, improved by replacing life expectancy with infant mortality and real GDP per capita with social security benefits expenditure. Hence, with the modifications made to the present HDI, it is therefore necessary to also change the fixed maximums and minimums for the HDI values.

Table V**Fixed Maximums and Minimums For HDI Values**

	Minimum	Maximum
Infant Mortality Rate	5	162 (1992)
Adult Literacy (%)	0	100 (1992)
Mean Years of Schooling	0	15 (1992)
Social Security Benefits Expenditure (as % of GDP)	0.1	33.7 (85-90)

Sources: UNDP 1994: 129, 165, 196; World Bank 1994: 214-215

The following table compares the present HDI values with that of the revised HDI values of the top thirteen industrialized countries. It is important to note that the new rank is calculated for the thirteen countries only, and is only meant for the purpose of illustrating the countries' vertical movement on the chart, that is, whether a country rises or falls in rank status.

Table VI**Original HDI value and Revised HDI value**

Country	HDI Value 1992	HDI Rank 1992	Revised HDI Value	New HDI Rank
Canada	0.932	1	0.500	7
Switzerland	0.931	2	0.439	11
Japan	0.929	3	0.408	12
Sweden	0.928	4	0.638	1
Norway	0.928	5	0.485	8
France	0.927	6	0.571	3
Australia	0.926	7	0.392	13
U.S.A	0.925	8	0.444	10
Netherlands	0.923	9	0.588	2
United Kingdom	0.919	10	0.480	9
Germany	0.918	11	0.535	4
Austria	0.917	12	0.531	5
Belgium	0.916	13	0.507	6

Sources: UNDP 1994: 93, 129, 165, 196; World Bank 1994: 214-215

The above table clearly illustrates how the original HDI values have significantly fallen for every country listed once the HDI values were revised. Seven of the thirteen countries listed have moved downward from what is considered to be in the range of high human development to medium human development. The remaining six countries have significantly fallen from a high human development level to a relatively low human development level (referring to the HDI values). Consequently, those countries which have significantly fallen in

rank status are: Canada (first to seventh rank), Switzerland (second to eleventh rank), and Japan (third to twelfth rank). Those countries which have experienced a significant upward movement in rank status are: Netherlands (ninth to second rank), Germany (eleventh to fourth rank), Austria (twelfth to fifth rank), and Belgium (thirteenth to sixth rank).

In general, all the countries listed have experienced a significant drop in their HDI values, shifting either to a medium development level or to a low development level. However, their rank status has either significantly decreased or increased. How does one explain these vertical movements? In addition, how can a country move from a high human development level, such as in the case of Canada, to a medium human development level? The answers to these questions lies within the modifications made to the present HDI. These upward and downward movements in rank status are attributed to the introduction of the suggested variables. Unlike the present variables (life expectancy and real GDP per capita), the suggested variables pin-point those socio-economic factors that contribute to a lower human development level.

IX. Conclusion

The quality of a human life cannot be measured in terms of how long an individual will live or how much material an individual possesses. Nevertheless, one cannot deny the difficulties encountered in the attempt at trying to find a measurement which truly encompasses all of the dimensions of human life. However, this is no reason to continue to use national income as a

measurement of human progression or to give up the struggle to find a measurement that is a better reflection of human development.

Five years have passed since the introductions of the HDI. The purpose of this new development measure was to assess human progression. This human progression was to be reflected in the three variables that constitute the index itself. Unfortunately, not all three variables reflect human development. It has been proposed that all three variables in the HDI should be multi-dimensional in order to be able to measure most facets of human life, for not all facets of the human experience can be measured.

Chapter one dealt with the concept of development and its theoretical construct. It is argued that the suggested variables (infant mortality and social security benefits expenditure) are multi-dimensional and therefore, better indicators of human progression or regression in comparison to life expectancy and real GDP per capita. Consequently, two of the three original HDI indicators were replaced through the introduction of the suggested indicators. The proposed indicators of the revised HDI will be used later on in chapter four in assessing the impact of European integration on the state of the human condition in Portugal.

CHAPTER 2 - ECONOMIC INTEGRATION THEORY

I. Introduction

Since the end of World War Two, various forms of economic integration have emerged. Such levels of integration can be found in Africa with the Union Douanière et Economique de l'Afrique Centrale and the Communauté Economique de l'Afrique de l'Ouest. Other forms of integration have been adopted in Latin America and the Caribbean. Such levels of integration around the world include: the Latin American Free Trade Association, the Central American Common Market, the Cartagena Agreement, and the Caribbean Community.

The regional approach to trade is gaining in popularity. For example, the United States has turned away from multilateralism toward regionalism mainly due to the number of problems it has encountered at the GATT negotiations. The U.S has entered into an integration agreement with Canada (Canada - U.S free-trade agreement). This was followed by its recent expansion into the North American Free - Trade Agreement (NAFTA), and is considering to expand its regionalism to include other countries of Latin America. East Asia, on the other hand, is entertaining the idea of regionalism as the only option available due to the recent developments witnessed in America and Europe (Melo and Panagariya 1993: 5).

The European Free Trade Association (EFTA) is a well-known form of economic integration established in 1960 by the Stockholm Convention with the aim of forming a free market for industrial goods only. However, the European Union (EU) thus far, is considered

to be the most influential form of economic integration. The EU was first established back in 1957 by the six founding member states under the Treaty of Rome (Germany, France, Italy, Netherlands, Belgium and Luxembourg). Denmark, Ireland, and the UK soon followed in 1973. Greece joined later in 1981 with the remaining two (Portugal and Spain), joining in 1986. In 1995, Austria, Finland, and Sweden were granted accession. It was assumed that the Treaty of Rome was merely a stepping stone in a process toward political union. Hence, this assumption is reflected in the present EU in their attempt at reaching fiscal, social, and monetary harmonization in their policies (El-Agraa 1982: 6).

The term "international economic integration" first appeared 1942. It has been used to refer to any area of international economic relations. By 1950, however, emphasis was placed on the definition of the term in question by economists exclusively working in the area of international trade for the purpose of defining a state of affairs or a process which involves the unification of different regimes into a broader political system. In essence, international economic integration is concerned with the complete dissolution of discriminatory trade barriers between member states. In addition, it also involves the institutionalization of certain principles of coordination and cooperation between the member states (cooperation being dependent on the level of integration that takes place).

There is no universal definition for international economic integration. Definitions differ from country to country and are time contingent. This, in turn, poses difficulties for a smooth integration between two or more nations. Nevertheless, a general definition is possible:

International economic integration is a process and a means by which a group of countries strive to increase its level of welfare in relation to the present level or some past one (it is possible that the past level of welfare was higher than the current one). It involves the recognition that a weak or strong partnership between countries can achieve this goal in a more efficient way, than by unilateral and independent pursuance of policy in each country. International economic integration requires the division of labour and freedom of movements for goods and services (at least) and factors of production within the integrated area, as well as restriction of these movements between the integrated area and countries outside it. (Jovanovic 1992: 8).

For the developed market economy, economic integration is a vehicle by which one may access the most profitable technologies and efficiently allocate them. For the young developing economy, economic integration is a means for economic development. However, it is important to keep in mind that economic integration is a gradual process and, rarely is it a smooth process according to Chamely (in Simai and Garam 1977: 39):

...integration problems arise because economic activity never was, in the main, organized on a world-wide scale. The actual organization emerged out of a disorderly process resulting from the push of spontaneous economic activity and demographic growth and from the random waves of local power seizure, territorial conquest, and national liberation.

II. Forms of Integration

International economic integration may occur between two or more countries. The degree or extent of integration is dependent on the members' easiness with each other and, essentially, how deep they wish to intertwine their economies. There are seven identifiable forms of economic integration. They are as follows:

1) Preferential Tariff Agreement

Customs duties on trade among the member states are lower in comparison to customs duties on trade with those countries outside the integrated area.

2) Partial Customs Union

This type of agreement is formed when member states keep their original tariffs on their mutual trade and create a common external tariff on trade with non-member states (Jovanovic 1992: 9).

3) Free-Trade Area

This type of arrangement allows for the free movement of goods and services between the participating countries by eliminating all tariffs and other quantitative restrictions on internal trade. However, each member state maintains its own tariffs and other regulations with countries outside the free trade agreement. Unfortunately, the problems associated with free trade are tariff evasion and industrial distribution. The purpose of a tariff is to protect domestic industries. This being the case, there is greater tendency to establish industries in the member country with the best tariff protection. Thus, undesirable consequences are bound to happen as long as each member state is allowed to have its own tariff policies with those countries outside the free trade area – a common tariff with those countries outside the agreement is non-existent (James 1987: 361).

4) Customs Union

A customs union, unlike free trade areas, not only remove trade barriers such as tariffs and quantitative restrictions between the countries involved, but also imposes a common tariff on trade with non-members.

5) Common Market

A common market is a higher form of association than a customs union. It incorporates those elements of a customs union and introduces the free movement of the factors of production. Therefore, in a common market, both capital and labour move without restrictions. In addition, there is an imposition of common regulations with regard to the movement of factors with non-member states.

6) Economic Union

An economic union incorporates all of the above theoretical types. However, greater unanimity of national economic policies are necessary, hence, the need for monetary and fiscal policy harmonization. At this level of integration, monetary, fiscal, and social policies are expected to unite, and a supranational entity is formed whose decisions are binding for all member states involved. It predicates consistency in its rules and procedures in its policies (such as taxation) in order to sustain uniformity within its national compartments with regards to the basic conditions of industry. Preference is given to supranational laws over national laws. However, at this level of integration, this precedence is limited to economic matters, specifically fiscal and monetary policies.

7) **Political Union**

A political union is considered to be the highest form of economic integration. It incorporates all of those characteristics of an economic union but, its supranational laws extend far beyond the economic. Within this theoretical type of integration, supranational decision making affects those national policies considered to be the very foundation of national sovereignty (such as defense and foreign policy). At this level of integration, member states abandon their aims at keeping national sovereignty (Gibbs and Michalak 1994: 27).

It should be noted that the above mentioned theoretical types of economic integration may occur individually and that they are not stages or a process from the lowest level of integration to the highest. Moreover, sectoral integration such as the Common Agricultural Policy (CAP) in the European Union, may occur in a particular sector of the economy. However, sectoral integration is a form of cooperation and not economic integration. Economic cooperation is:

An arrangement between two or more countries to *reduce* certain forms of discriminatory practices among them. ie. an agreement to reduce tariffs (James 1987: 360).

Economic integration on the other hand, focuses or aims at *abolishing* as opposed to reducing discriminatory practices. From a simplistic point of view, economic integration can be divided into two broad categories -- shallow and deep integration. Shallow integration

refers to those participating member states who wish to "integrate" at a superficial economic level. Within this category, countries tend to participate in preferential trade arrangements or free - trade agreements only. In contrast, deep integration may refer to any of the last four theoretical types of integration previously described (customs union, common market, economic union, and political union) (Melo and Panagariya 1993: 12).

III. The Case Of Small And Medium Sized Economies

Economic problems at the national level have gained international attention because of the ever-increasing web-like complexity of national interdependence. According to Jovanovic (1992:1), the majority of these recently perceived international economic difficulties are solvable through international economic integration with emphasis placed on sound and on the careful application and regulation of economic policies. Jovanovic states that:

International economic integration is a desirable strategy, at least for small and medium sized countries; that the benefits of integration come in the long run; and that the benefits are much greater than the possible short-run costs (Jovanovic 1992: 1).

In most cases, small and medium sized economies (SME's) are more dependent on external relations because of the lower degree of diversification so characteristic of their economic structure. Hence, it would be irrational for SME's, in a situation of economies of scale to seek economic policies which reflect sovereignty.

In general, SME's do not have the security of accessibility to large markets which are a pre-requisite for the successful function of modern technologies. The result of the confinement to small markets is short production runs, higher prices, and a lower standard of living. International economic integration and coordination of economic policies at the international level can improve SME's international standing by allowing greater access to member states' markets, thereby increasing, improving, and securing SME's accessibility.

Policies of long-term protection not only endanger SME's terms of trade, but can also bring about unfavourable reactions from trading partners. Moreover, protective measures function as a disincentive for protected firms to go through the necessary adjustments for better efficiency.

Even though SME's do not exercise much power within the international economic arena, they can exercise some control over their own terms of trade by becoming a participant in a trade bloc or by seeking a liberal economic policy as opposed to protectionist policies (Jovanovic 1992: 2).

From an international perspective, the majority of SME's goods and services may be sold within a secure market offered through the participation within a market conglomerate or entity such as the European Union. However, the coordination of monetary and fiscal policies are of significant importance for the success of integration and its duration.

IV. Incentives For Integration

In general, countries participate in some level of economic integration because there are political, economical and social gains. The prevailing political analysis of the gains of economic integration pertains to political stability. In the past, in particular after World War Two, economic integration was perceived as imperative for political stability. However, the political changes in recent times that have occurred in Eastern and Central Europe and the former Soviet Union, has been a significant incentive to the integration process. For Western Europe, economic ties with those countries that are experiencing a transitional phase are a way aiding reform and encouraging political harmony. In addition, for those countries of neutral status, the elimination of agitations between Eastern and Western Europe, expunged a significant restriction on their cooperation in regional arrangements. It is acknowledged that not only do economic gains contribute to significant support for political goals, but also that political unsteadiness could endanger regional economic performance.

In the evaluation of the economic gains of integration, the prevailing analysis pertains to trade creation and trade diversion. According to traditional theory, international economic integration increases world welfare if trade creation is the predominant byproduct of integration. In contrast, integration may be detrimental to world welfare if trade diversion surpasses trade creation (Cable and Henderson 1994: 26). Trade creation is a consequence of the moving away from high cost domestic production to low cost production as a result of economic integration. The main point is that resources are used more efficiently. In contrast,

trade diversion involves the moving away from low-cost production to high cost production due to integration. Unfortunately, trade diversion results in the inefficient use of resources. Nevertheless, trade creation is more likely to prevail when those nations going into regional trade agreements already do most of their trade with each other prior to the agreements or, when trade barriers such as tariffs are relatively low for non-member states (International Monetary Fund 1994: 99).

According to James, economic integration may strengthen a country's international bargaining position, in particular SME's, thus, improving the country's terms of trade.

Hence:

a group of countries bargaining as a unit can win trade concessions from the rest of the world -- concessions which probably could not have been won if each country bargained independently. These concessions contribute to improved terms of trade (James 1987: 363).

Economic integration increases competition. This in turn, compels inefficient industries to become more efficient or be forced to leave the market. The absence of competition permits industries to use inefficient production methods at a high cost.

Technological change is a consequence of economic integration. Protectionism in contrast, allows industries to use inefficient methods at a high cost therefore, discouraging technological change. Industries in general expand in response to a larger market. This in turn, allows for more resources to spill into research and development. In addition, it provides

for the possibility of latent comparative advantage with the possibility of becoming an exporter to countries outside the integrated area.

Economic integration makes possible the realization of economies of scale. It advocates the progression of a larger domestic market. As a result, the expansion of the domestic market fosters companies to set up plants which in turn, encourages economies of scale. (James 1987: 363).

Beyond a customs union, other economic gains of integration include: factor mobility between member states; coordination of monetary and fiscal policies; and the three-dimensional goal of achieving near full employment, an increase in economic growth, and an improvement in the distribution of income (EL-Agraa 1982: 8).

V. Conclusion

Economic nationalism, as opposed to economic integration, continues to be the predominant economic strategy world wide. This may be due to the fact that the methods of dealing with the short-term negative effects of integration are still in its infancy of development.

International economic integration is widely scrutinized because of the perceived negative effect of the loss of national sovereignty. However, this reasoning is unjustified

because when two or more independent countries agree to join in some level of integration, a treaty is signed whereby the participating members specifically state what they intend and do not intend to do. In general, international treaties entail some loss of national sovereignty. Hence, the significant questions raised are: whether or not the new entity, created through the process of integration, is capable of surviving and performing as a single unit at a reasonable economic level within the international arena; whether economic integration in general, is a mutually beneficial arrangement for those countries involved; and does economic integration bring about political stability, economic development, and most importantly, does it foster a higher level of human development for those members involved in the evolutionary process of economic integration?

The following chapter deals with the first question raised, that is, if an integrated area perform at the international level as a single unit. The European Union has been chosen as the integrated area to be analysed since it has been the most influential form of economic integration until present.

CHAPTER 3 - THE EUROPEAN UNION

I. Introduction

This chapter will begin with a brief historical overview of those treaties that are considered to be the major steps taken towards European economic integration. The main treaties of relevance discussed in this section are: the Treaty of Paris (the European Coal and Steel Community in 1951), the Treaties of Rome (the European Economic Community and Euratom in 1957), the Single European Act, and the Treaty on European Union (Maastricht Treaty of 1992). This will be followed by an analysis on whether or not the economic integration of the present European member states does in fact, stimulate intra-European Community trade (Intra-EC) and whether this in turn, encourages economic development within the EU overall.

The European Union (EU) is an unparalleled political establishment because it links traditional national sovereignty with significant levels of authority conferred to assigned functional areas of supranational agencies. It may therefore be characterized as a pre-federal state, functioning as an entity in a wide range of international affairs. It is an amalgam of internal similarities and differences. All member states seem to manifest a high degree of homogeneity – all are democratic and pluralistic societies. From an economic perspective, each state tends to be capitalistic in nature, characterized by free-market economies, with a shared inclination to develop mixed economies. Nevertheless, all member states display economic differences in the general levels of well-being. These differences include: export

and import patterns, religious differences, different unemployment rates, and so on. However, in accordance with the perspective taken in this thesis, these differences have not affected, to any significant degree, the EU's ability to progress toward unification, nor have these differences prevented the EU from achieving success as an international actor.

The EU, as it now stands, is the outcome of an evolutionary process that is characterized by both long and short-term antecedents. The most immediate antecedent refers to the set of economic circumstances (material devastation, loss of capital goods, destitute population) during the post-World War Two period that impelled the vulnerable western European states to conclude that economic and political restoration depended on their willingness and ability to work in unison. Hence, in 1948, the United States introduced the Marshall Plan in an effort to re-stimulate the European economy. The purpose of the Plan was to aid Europe in its recovery by supplying Europe with the ample funds and goods considered to be indispensable in order to proceed with the much needed recovery programmes. The Organization for European Economic Co-operation (OEEC) was established for the purpose of allocating and organizing the assistance programmes. In 1961, the OEEC altered itself to what is presently referred to as the Organization for Economic Co-operation and Development(OECD). The second precursor to international co-operation refers to the past Soviet threat and the beginning of the Cold War. As a reaction to the spread of communist seizures such as in the case of Romania, the following organizations were founded in 1948 for the purpose of defense: West European Union (WEU), North Atlantic Treaty Organization (NATO), and the Council of Europe (the latter founded in 1949). Finally, the third antecedent

to international co-operation refers to the so-called "German question." In essence, this meant the fear that many European states felt that Germany may once again become a powerful and opposing state and consequently become a renewed threat to peace.

Hence, for the above-mentioned reasons, the first confirmed step taken toward European unification occurred in 1951 with the establishment of the European Coal and Steel Community. The next formal step followed in 1957 with the founding of the European Economic Community and Euratom. In 1967, the institutions of the above mentioned communities merged to form the European Community, presently known as the European Union (Anderson and Blackhurst 1993: 2).

The success of the six original founding nations enabled the EU to expand to fifteen members by the year 1995 (Christensen 1995: 1). The EU's dimensions were further broadened through the association status with Cyprus, Malta, and Turkey, and with the close links forged with the African, Caribbean and Pacific states under the Lome Convention. Meanwhile, countries are ready to apply for EU membership as soon as it is viable to do so (Nicoll and Salmon 1994: 310).

The EU is viewed as a failure by many scholars around the world. Those who hold this view tend to focus on the EU's deferments in decision-making (and the fact that it is still based on intergovernmentalism rather than federalism), slow development toward political unification, its inability to meet deadlines or in other words, fulfil all the legalities within a

Treaty by a certain date, and so on. These dilemmas are seen by critics as examples of the EU's unsuccessful attempts to achieve its objectives and its inevitable doom. However, the EU's perceived "success" or "failure" is to a great extent dependent on the perspective taken. Hence, the EU may be viewed as a poorly organized entity, coming undone at the seams, or in contrast, it may be perceived as a non-static, evolutionary process with over thirty years of history behind it. Therefore, any attempt to assess the EU's past achievements, its present form and level of progression, and its role as an international actor, is to a great degree dependent on the viewpoint taken.

II. The Treaty Of Paris

Several European countries had good reason to seek economic integration in the aftermath of World War Two. They had economic and political concerns that they perceived as needing to be addressed. From an economic perspective, the devastated countries of Europe sought integration as an immediate response in aiding each other in the reparation of material destruction caused by the War. In addition, the expected long-term underlying economic and technical benefits were anticipated as a direct consequence of a liberalized market-creating objectives by an independent authority. From a political standpoint, first and foremost, it sought integration as a means of bringing together traditionally "opposed superpowers" in the hope of preventing a recurrence of war. This concerned the mid-century antagonism evidenced between Germany and France. Hence, through integration, France

would acquire "a greater sense of strategic security" while Germany would be" allowed by France to develop the core of its economy on the basis of clear legal equality, free from a penal burden of reparations" (Harrison 1995: 8). The dangerously fragile relationship between France and Germany may be further clarified in Winston Churchill's speech at Zurich:

The first step in the recreation of the European family must be a partnership between France and Germany. In this way only can France recover the moral leadership of Europe. There can be no revival of Europe without a spiritually great France and a spiritually great Germany... In all this urgent work, France and Germany must take the lead together (Williams 1991: 21).

Second, it was assumed that through integration, the vulnerable European countries would acquire a better military defense system against the now former Soviet Union. Third, it was felt that by coming together, it would be perceived as an equal partner with just as much leverage within the international space as the Americas. It sought to gain some control over those global factors that inevitably had a direct impact on their economic development. In essence, it sought recognition as an international actor (Nicoll and Salmon 1994: 317). Finally, the economic motives can not be separated or isolated from the political motives for integration -- the two are inextricably intertwined. However, in the end, the political motivation for integration surpassed all economic reasons for integration. In the end, the nullification of military strain between France and Germany was the immediate and primal objective on the agenda which surpassed all economic and technical benefits from integration.

The first step toward European integration was initiated in 1951 by an economic expert by the name of Jean Monet. Monet had observed that after World War One, the League of

Nations had failed in its sole purpose to maintain peace. After World War Two, Monet felt that a new procedure in dealing with international conflicts was necessary. Monet came up with a proposal commonly known as the "Schuman Plan" as a solution to the central problem of Franco-German relations:

It was to place the whole of both French and German production of coal and steel under an international authority with membership open to other European countries and for this authority to have as its purpose the unification of the conditions of production leading to a gradual extension of effective cooperation in other areas (Harrison 1995: 7).

Hence, the ideas within the Schuman Plan were put into operation in 1951 with the signing of the Treaty of Paris by the original six EU member states (Belgium, France, FR Germany, Italy, Luxembourg, Netherlands) which established the European Coal and Steel Community (ECSC) (Williams 1991: 25).

III. The Treaty Of Rome

In 1955, after the breakdown of the draft treaty for the European Defense Community, the original six member states thought it necessary and desirable to strengthen the economic ties that bound them together. Under the guidance of Paul-Henri Spaak (Belgium's foreign minister), a new proposal was drawn up, commonly referred to as the "Spaak Report." The report pointed out the need for the European conglomerate to expand its economic integrated area -- to go beyond the sectors of coal and steel. Such an expansion was to occur through the creation of an authentic common market, formed on the basis of a customs union, with

emphasis placed on the fact that this would be non-conflicting with the GATT rules (Harrison 1995: 25). The Spaak Report affirmed the need for common rules followed by common action, and an independent system of institutions free from national bias were necessary for the realization and smooth function of the common market. Furthermore, the report stated that a long transitional period (maximum fifteen years) was necessary in order to allow for the innate changes to take place during the evolutionary process of the common market. On that account, the essence of the Spaak report was officially recognized with the signing of the Treaty of Rome in 1957, which became operative on the first of January in 1958, creating the European Economic Community and Euratom (Harrison 1995: 30).

The major provisions set out in the Treaty of Rome were the establishment of a customs union, a common market, and the setting up of an atomic energy community (Euratom). In accordance with the goals outlined within the customs union, all protective barriers to trade were to be abolished between the member states. In addition, the formation of a common trade policy involving non-member states was established through the Common External Tariff (CET), and the variable levy imposed on agricultural imports by the Common Agricultural Policy (CAP). The static effect of such an establishment is the generation of trade creation. The dynamic effects on the other hand, would include internal and external economies of scale, increased competition, a growth in investment, and technological dynamism as a consequence of the increased growth. According to Williams (1991: 29), the establishment of a common external tariff was to benefit the European member states in terms of trade diversion. According to the Treaty, the customs union was to form the basis of the common

market. In essence, the common market would be made up of a pooling together of national markets with joint regulation for the free movement of goods and services (covered by the customs union), capital and labour. The expected outcome was a reduction in protective barriers that impede trade within the European conglomerate itself, and a general decrease in tariff barriers on a global scale.

The underlying motive in the signing of the Treaty of Rome was for the promotion of liberal capitalism. On that account, its first priority was the abolishment of those factors considered to be impediments to trade that consequently affect the functionality of the common market purposely established for capital, labour, or products. In addition, the Treaty emphasized the need for common policies as an imperative requirement in the areas of agriculture, transport, and the European Investment Bank. Consequently, an agricultural policy, the social fund, a common transport policy, and the European Investment Bank were established.

When the six original member states decided to "deepen" their economic integrated state through the establishment of a common market, they were not ready to give up their national sovereignty in exchange for federalism. For that reason, the six agreed on an intergovernmentalistic approach to their "sovereign-federalist deadlock" -- a compromise between national sovereignty and federalism. Nevertheless, the legalities set out in the Treaty of Rome implied some loss of national sovereignty:

As in the agreement on the terms of economic integration, gradualism and pragmatism were also the key to success in the political realm...Rather than relinquish all sovereignty overnight, the member states were asked merely to abandon the dogma of its indivisibility (Williams 1991: 33).

Hence, the Treaty does not make any references to the question of unification of economic legislations (just harmonization) or to monetary union (Tamames 1987: 47)

With the onset of a common market, four major institutions were established whereby common rules were to be abided by, and common action exercised.

Table VII

The four Principal Institutions of the EU

European Commission	Provided the bureaucracy of the EC. It proposed new policies, implemented existing policies, was the guardian of the Treaty of Rome, and had a formal right to attend council meetings.
European Council of Ministers	Took the major decisions with respect to the detailing of existing policies and principles and to the adoption of new policies.
European Parliament	Had a mainly consultative role but it did have the power to approve the Community budget.
European Court of Justice	Had the responsibility of assessing the actions of the other institutions and of the member states against the Treaty of Rome and other fundamental principles.

Source: Williams 1991: 32

It is important to note that the "balance of power" has shifted since the establishment of the institutions. Nevertheless, the supreme authority continues to be held by the Council of Ministers, consisted by the Heads of Government of the member states.

In conjunction with the establishment of a common market, a parallel agreement was also signed in Rome in 1957, responsible for the formation of the European Atomic Energy Community (Euratom). The idea in the formation of Euratom was that the creation of a nuclear sector would prove to be indispensable to the progression of the European economy. Hence, the merging of national efforts was seen to be integral for the culmination of Euratom. Unfortunately, this specific route toward further integration proved to be a dead end. The development of civil nuclear energy was to remain a national concern (Harrison 1995: 33).

In reality, the legalities outlined in the Treaty of Rome were only partially fulfilled. By 1968, the formation of a customs union, the elimination of customs tariffs, and the application of a Common External Tariff had been successfully implemented. The common market, on the other hand, was still in an incomplete state according to the expectations delineated in the Treaty of Rome. The difficulties encountered in the realization of an authentic common market proved to take longer to solve than originally envisaged by its founders. Impediments in the advancement of a truly unified internal market continued to persist throughout the 1970's and 1980's. In essence, an assortment of non-tariff barriers (NTB's) proceeded to obstruct the free mobility of goods, capital and labour within the European conglomerate. According to Cutler et al (1992: 44), the existing NTB's consisted of the following:

- a variety of border controls and checks
- differences in national technical regulations and standards
- government differences for domestic producers in public procurement
- exchange controls
- fluctuating exchange rates
- differences in national tax regimes

In addition to the NTB's, the enlargement of the Community and the oil price shock of the 1970's were also a contributing factor to the paralysis in the advancement of the internal market (Bongers 1992: 5).

As a solution to the inherent problems in the creation of a common market, a new proposal known as the "White Paper," was drawn up with the sole objective of eradicating the remaining barriers to trade.

IV. The Single European Act

The White Paper of 1985 was a refurbished attempt toward the advancement and completion of the Single Market Programme. The document laid out the agenda and timetable to annihilate all remaining internal impediments to trade by the 31st of December of 1992. This was implemented in article eight of the Single European Act (SEA). In addition, the White Paper acknowledged that a notable period of adjustment was necessary for a few member states regarding some of the measures. In essence, it is only through the abolition of the remaining NTB's (physical, technical and fiscal barriers) within the European conglomerate that a truly authentic single market can be realized (El-Agraa 1982: 155).

Hence, the constituents of the White Paper were transformed into legal form known as the Single European Act, signed in 1986 and operational on July 1st of 1987 (Bongers 1992: 6).

In accordance with the constituents set out in the Single European Act, the single market is described as "an area without internal frontiers in which the free movement of goods, persons, services and capital is assured in accordance with the provisions of this treaty...." (Bongers 1992: 6). On that account, the SEA set out the provisions necessary for the final completion of the internal market. They are as follows:

1) Unanimity displaced by qualified majority voting

Unanimity was now confined to forming laws restricted to tax, movement of people, and to conditions of employment. Hence, majority voting not only accelerated the decision-making process, but it was also enlarged to all principal areas of the single market (Colchester and Buchan 1990: 15)

2) Principle of mutual recognition

Under the principle of mutual recognition, each national government must recognize any other government's commercial rules as legitimate on its own terrain, on the grounds that they meet the necessary underlying standards previously acknowledged by majority vote in

Brussels. However, this principle is subject to specific notable restrictions, that is, it rests upon significant minimum rules such as for health and safety (Harrison 1995: 58).

3) An augmentation in the powers of the European Parliament

An increase in parliamentary powers meant that the European Parliament not only could comment on the design of European law, but now could intervene in its blueprint, enabling it capable of reinforcing its views through usable sanctions if they were disregarded by either the Commission or by national governments (Colchester and Buchan 1990: 15).

Alongside the provisions set out to eradicate the remaining barriers to trade, certain market reinforcement measures were also improved. Among these measures are the strengthening of the competition policy; merger control regulation, and industrial co-operation.

4) Strengthening of the competition policy

The White Paper emphasized the need to attest that anti-competitive habits do not generate new patterns of protectionism with the consequence of a re-divergence of the market. On that account, a major component of the EC agreement is comprised of stringent directives pertaining to competition in the internal market. Such directives affect enterprises, the custom of dumping within the market, and manipulation of state aid. This is reasserted in Articles 85 and 86 which prohibits:

...agreements or other practices which distort competition and which are liable to affect trade between member states...and one or more companies exploiting in an abusive fashion a dominant position in the common market or in a substantial part of it (Harrison 1995: 75).

The outcome of the refinement of the competition policy was an increase in the application of the directives by the Commission. Consequently, the Commission has charged firms as high as 10 % of their turnover. This is reflected in the 150 million ECU charges between the years 1986 and 1989 (Harrison 1995: 75).

5) Merger control regulation

New regulations pertaining to large scale company mergers were operational by 1991. The reason for the implementation of these new directives was the rapid increase in company mergers from 108 between the years 1985 and 1986, to 268 between the years 1987 and 1988 whereby the company turnover surpassed 1 billion ECU in value. The point in question is whether the authority concerning large scale company mergers lies with national governments or with the Commission. Consequently:

The division of responsibility was finally agreed in the merger control regulation, which specifies that the Commission has the power to regulate company mergers in the EU with a combined turnover of at least ECU 5 billion of which at least ECU 250 million must be within the EU. However, if each company derives 2/3 of its business from the same member state, then the power to regulate competition reverts to that member state (Harrison 1995: 76)

6) Industrial co-operation

The White Paper asserted that the simple removal of the prevailing impediments to trade was inadequate in the aim of completing the single market. This holds true for SME's whom experience difficulties in modifying their frontiers from the national to the European market. Hence, the advancement of industrial co-operation would aid SME's in their transition.

Industrial co-operation constitutes a disparate realm of measures which vary in intent and effect. An example of this is the improvement in the constitutional structure for cross-border co-operation between firms. On this account, quite a few company ordinances have been endorsed by the EU over the years, contrived to surmount the difficulties caused by varying constitutional standards with regards to the establishment and/or administration of enterprises which in turn, can become impediments to cross-border activity themselves. In addition, industrial co-operation can also be enlarged to the improvement in the use of some areas of the various Community expenditure programmes such as in the Regional Fund and Community Research and Technological Development Programmes. Nevertheless, it is important to note that "Community action in these areas of industrial co-operation is intended to complement, not replace, action by both private firms and the public authorities of the member states" (Harrison 1995: 83).

The ecumenical assertion within the internal market is that the axiom of co-operation is secondary to the axiom of competition. However, competition policy does permit some level of co-operation between firms in well defined sections of the market.

The SEA may be perceived as a concession amongst those European nations (France and Germany) who aspire for a Treaty on European Union, and of those signatory countries (UK and Denmark) who do not approve or wish to, at the time, to further integrate but only wish to see the execution of the constituents set out in the White Paper for the realization of the Single European Market. On that account, the SEA may be viewed as a finite set of modifications to the original Treaty of Rome whereby majority voting is permitted on a wide range of areas that directly have a bearing on the realization of the Single Market, and also has a few unexplicit recommendations on EMU, Political Union and other policies such as social (labour market) and environmental policies (McDonald, Stephen and Deadren 1992: 18).

V. What Is Monetary Union?

The modifications set out in the SEA did not divest the signatory countries' sovereignty. Member states continued to have their own defense policy, in other words, they continued to be safeguarded by their own military and therefore free to walk away from supranationalism. Unfortunately, a complete integration of the Single Market demands monetary union or at the least, a close monetary association which pegs the value of all

member states currencies. Because this would dictate a loss in the autonomy of national monetary policies to the adjuration of upholding a set of exchange rates, monetary policy was not included in the 1992 agenda (Cutler et al 1992: 50).

There are four identifiable forms of monetary arrangements: currency union, exchange rate union, free intercirculation union, and parallel currency union. Because the last three forms of monetary arrangements do not necessarily result in total monetary integration and are therefore incompatible with the constituents set out in the SEA, the EU has chosen a currency union as its form of monetary arrangement. This is reflected in the signing of the SEA whereby each member state is bound to the task of the eventual achievement of monetary union. Monetary union may be defined as follows:

A group of countries may be perceived to constitute a monetary union if they experience identical rates of interest and inflation. That is, the definition of monetary union describes a set of monetary characteristics which implicitly involves the as if assumption that there exists a single currency throughout the union. It follows, therefore, that a monetary union is compatible with member countries' retaining their national currencies provided the following conditions are satisfied;

- a) there are no restrictions to the movement of capital across the union
 - b) member countries' financial sectors are perfectly integrated
- (McDonald, Stephen and Deadren 1992: 40)

The establishment of a currency union, by annihilating exchange rate uncertainty, may eventuate in an improvement in the distribution process of resources within the Integrated Area on different levels. Hence, the establishment of a currency union does have its advantages:

Table VIII

The advantages of a currency union

Enhanced efficiency of the price mechanism as a resource allocator....A currency union is likely to lead to a reduction in member countries' natural rate of unemployment.
Stimulation of the manufacturing sectors of member countries....The creation of a currency union by encouraging a shift of resources back to the manufacturing sectors is likely to result in an increase in the average productivity growth rate of member countries and, again, in a decline of their respective natural rates of unemployment.
Stimulation of competitive forces in the union.....Exchange rate uncertainty places small and medium-sized firms at a special disadvantage. The creation of a currency union removes this disadvantage.
The elimination of exchange rate uncertainty is likely to yield benefits in terms of higher growth rates of intra-union trade and investment.

Source: McDonald, Stephen and Deadren 1992: 44

The essence of the Delors Report approves of the establishment of a European Currency Union (ECU), and is congruous with the goals set out in the SEA. The 1992 programme goal is the betterment in the distribution of resources by eliminating the existing impediments to the free movement of goods, services, capital, and labour. However, its definitive goal is the total integration of the EU and of the final completion of the single market. However, the realization of such aspirations would be infeasible if it did not include the intention of absolute monetary union which can only be realized through the creation of a European Currency Union. However, the establishment of a currency union is futile without the absolute free circulation of capital throughout the integrated area in question, and of a thoroughly desegregated financial sector. Hence, the realization of three basic requirements must be fulfilled in order to establish a currency union. First, all existing barriers to the free flow of capital throughout the EU must be eliminated.

Second, the establishment of a common legal arrangement (structure) is necessary in order to ease the total integration process of each member states financial sector. Third, there can be only one independent supplier of the union currency accountable for the monetary and exchange rate policies of the EU. Therefore, any reservation of national monetary autonomy would only undermine the successfulness of the EU (McDonald, Stephen and Deadren 1992: 45).

VI. Reasons For A Currency In Europe

The turbulence experienced in the exchange rates in the late 1960's was perceived to possibly undermine the then organized customs union and CAP. It was postulated that the fixity of exchange rates was essential for the continued progression of these accomplishments. Consequently, in 1970, the Integrated Europe embraced the Werner Plan which in turn, stressed the need for the fixity of exchange rates and the free flow of capital. However, the Werner Plan was based on the assumption that the International Monetary Fund (IMF) would furnish the necessary conditions against which intra-EC exchange rates would be irreversibly anchored (fixed) and the elimination of all impediments to the free movement of intra-EC capital fulfilled. Unfortunately, the Werner Plan was deserted due to the unforeseen oil price shocks between the years 1973 and 1974, and of the unforeseen breakdown of the IMF. The disappointment with the exchange rate flexibility and the acknowledgement that inflation cannot be regulated with the existence of clashing monetary policies, engendered the needed

determination within France and Germany to push for the establishment of a European Monetary System (EMS). Accordingly, a European Monetary System was eventually approved by all member states, with the exception of the United Kingdom, and came into force in March of 1979, whereby its aims were to "reduce exchange rate volatility and thus promote a greater degree of exchange rate predictability. Simultaneously, it aimed at the permanent reduction of inflation rates in the EC as the means of promoting price-predictability" (McDonald, Stephen and Deadren 1992: 43)

Although EMS may be seen as a powerful catalyst in the integration process within Europe, it was soon acknowledged that the aptitude of the newly formed structure with the purpose of aiding this integration process had restrictions of its own in fulfilling its objectives. Such restrictions included the realization that the EMS was incapable of furnishing the monetary makeup necessary for the establishment of a single European market. On that account, a consensus emerged for the need of the gradual replacement of national currencies by a single European Monetary Currency. Hence, the new objective was the future achievement of a monetary union amongst all signatory countries.

VII. The Maastricht Treaty

On February of the year 1992, a Treaty on European Union was signed, revising the Treaty of Rome considerably. The Treaty consists of an accord on an irrevocable motion

toward European Monetary Union (EMU), including a consensus on other political matters. In accordance with the articles in the Treaty on European Union, "Economic and Monetary Union is to be established no later than 1991. By then, the currencies of individual member states eligible to join EMU will be replaced by a single currency, the ECU, managed and controlled by an independent European Central Bank" (Somers 1991: 8). However, the reality of establishing a common currency is unfeasible without economic convergence, coupled with a certain grade of economic and social adherence. On that account, convergence programmes are to be implemented in order to aid member states in achieving the necessary convergence standards in order to gain entrance into EMU. According to the articles set out in the Treaty, Economic and Monetary Union are to be realized in three phases:

1) Phase One (July 1990 to 31st of December of 1994)

- culmination of the single market
- commencement of the economic convergence programmes of the states involved
- all member states expected to join the exchange rate mechanism of the EMS

2) Phase Two (January 1st - 1997 and 1999)

- The employment of multi-convergence programmes; launching a European Monetary Institute with the purpose of regulating monetary policies and laying out the foundations for the establishment of the European Central Bank (ECB) in the third phase
- member states are to commence the process responsible for their central bank's autonomy

3) **Phase three (starts between 1997 and 1999)**

- the establishment of the European System of Central Banks (ESCB) and of the ECB
- the displacement of national currencies of those member states which meet the nominal convergence criteria and therefore have been granted entrance into the EMU by the ECU
- the ESCB will be comprised of the ECB and the of the national central banks, where the subsequent will be accountable for the execution of the monetary policies assigned by the ECB (Somers 1991: 8)

The agreement insinuates an irrevocable obligation by each country involved to inevitably reach the third phase on the grounds that they meet the following prerequisites:

Table IX

Necessary conditions for monetary union

Price Stability	The inflation rate should not exceed the average inflation rate of the three countries with the lowest price increase by more than 1.5 percentage points
Currency Stability	The exchange rate should not have been subject to devaluation within the narrow band of the Exchange Rate Mechanism during the last two years before the date of entry to EMU
Public Deficit	The budget deficit should not exceed 3 % of GDP
National Debt	The public debt must be lower than 60 % of GDP
Interest Rates	The nominal long-term capital interest rates should not deviate by more than two percentage points from the average of the long-term interest rates of the three countries with the lowest inflation rates.

Source: Somers 1991: 8

In accordance with the constituents set out in the Maastricht Treaty, the Heads of Government must conclude by the end of 1996 whether most member states have achieved the

necessary nominal convergence requirements and at what time can EMU be instituted. However, if a time has not yet been established by then, EMU will automatically begin January 1st of 1999. It is noteworthy to mention that EMU will be limited to those member states who meet the necessary qualifications.

Additionally, a Cohesion Fund is to be established to give monetary aid for environmental and transport undertakings. However, this aid is confined to member states whose per capita income is less than 90% of the EU budget between the years 1993 and 1999. Additional resources will be augmented to these member states. This aid is to help these particular member states in accelerating the convergence process and help them meet the required nominal convergence criteria with relative ease by the end of the century. In addition, other agreements on political and social issues were also included (example: introduction of a union citizenship, including freedom of movement, right of free residence, right to vote, right to be eligible for elections at municipal and European level).

The agreement also contains stipulations on a common foreign and security policy which will become the framework for a common defense policy. Additionally, in an appended agreement, the Treaty "...provides for the consolidation of workers' basic rights, along the path set by the Social Charter of 1989 (a non-binding declaration of principles)" (Somers 1991: 9).

The agreement also includes a unique condition known as the Subsidiarity Principle, directed at guaranteeing that rulings are taken nearest to the average civilian. Hence, in accordance with this provision "the Community should act only if an objective can be better achieved at Community rather than at National level and furthermore the means employed must be proportional to the aimed objectives" (Somers 1991: 9). The purpose of the Subsidiarity Principle is to prevent the concentration of political power or, in other words, an over-centralized federalist approach.

The Maastricht Treaty is a recent landmark or turning point in the evolutionary process of European unification, however, it is still a long way from achieving a federal type Europe for the time being.

The objective of the subsequent section is to critically examine whether economic integration, in this case, in Europe, does in fact stimulate trade between the member states and therefore, decrease trade with the rest of the world, and does this in turn, promote economic development for the signatory countries involved.

VIII. The European Union Evaluated

It has been previously mentioned that the EU is perceived by many critics as "falling apart" or "coming undone at the seams." However, it is questionable as to what extent this view is valid.

Due to the recent internationalization of competition, it is presumed that it is now more arduous for a country to maintain a relatively steady growth in the international and economic system. The general assumption is that the formation of an Integrated Area results in a reduction or abolition of internal impediments to trade which in turn, causes an augmentation or stimulation in trade within the Integrated Area, and a decrease in the need for external trade. The presumed consequence of integration is the formation of an external tariff wall and hence, a decrease in external trade.

Table X
EC and World Trade (US \$ Millions)
1961-1973

	Imports		Exports	
Year	Intra Euro-12	Extra Euro-12	Intra Euro-12	Extra Euro-12
1961	20 018	29 521	20 099	26 232
1962	22 580	31 499	22 484	26 253
1963	25 947	34 340	25 731	27 546
1964	29 832	38 519	29 622	30 205
1965	33 214	40 826	32 907	33 492
1966	36 805	43 375	36 176	36 514
1967	38 532	44 167	37 939	38 420
1968	43 700	47 763	43 144	42 702
1969	53 736	54 155	52 869	47 578
1970	62 549	61 823	61 979	54 178
1971	73 445	67 447	73 047	62 509
1972	89 051	76 383	88 898	71 562
1973	123 506	107 631	122 730	95 957

Source: Eurostat 1994: 94-95

Almost a decade after the creation of the European Union, there is evidence of an increase in intra-EC trade, both in terms of imports and in terms of exports. Regarding imports, 1970 was the "critical year" where intra-EC imports began to exceed extra-EC imports. With regard to exports, 1968 was the year where intra-EC exports exceeded extra-EC exports. However, it is noteworthy that the turbulent years of the 1970's and 1980's (oil

price shock, recession) caused the member states to revert back to protectionist policies.

Nevertheless, this temporary set-back has been surpassed with the signing of the SEA which once again, set the wheels of integration in motion. Hence intra-EC trade was once again, exceeding extra-EC imports and exports. This may be clarified in the following table whereby one notices that the increase in intra-EC activity surpasses the gradual increase in extra-EC activity:

Table XI
EC and World Trade (US \$ Millions)
1981-1992

	Imports		Exports	
Year	Intra Euro-12	Extra Euro-12	Intra Euro-12	Extra Euro-12
1981	334 964	355 321	336 656	296 248
1982	329 355	328 561	331 433	278 306
1983	325 159	304 187	326 608	267 619
1984	329 393	308 226	332 741	276 838
1985	356 166	310 134	356 054	288 945
1986	452 199	329 100	453 807	336 350
1987	562 668	392 576	562 023	391 746
1988	639 525	458 674	638 554	429 134
1989	688 030	492 170	689 389	455 034
1990	845 299	589 241	836 481	534 603
1991	871 036	612 133	852 760	524 781
1992	927 327	633 118	902 057	565 525

Source: Eurostat 1994: 94-95

The augmentation in intra-EC trade is most noticeable when one compares the years of 1958, and 1992.

Table XII
EC and World Trade (US \$ Millions)
1958 and 1992

	Imports		Exports	
Year	Intra Eur-12	Extra Eur-12	Intra Eur-12	Extra Eur-12
1958	13 123	24 126	12 905	21 742
1992	927 327	633 118	902 057	565 525

Source: Eurostat 1994: 94-95

At the time of the establishment of the EU in 1958, extra-EC imports exceeded intra-EC imports by almost double (11003 million). However, by 1992, the pattern of EU imports drastically changed: intra-EC imports now exceeded extra-EC imports by 294 209 million. The same can be said with regards to the EU's export pattern. In 1958, extra-EC exports surpassed intra-EC exports, thus showing that member states continued to favour trade relations with countries not belonging to the EU. However, by 1992, this pattern also changed with intra-EC exports exceeding extra-EC exports by 336 532 million. Even though there has been a gradual increase in international trade, both in terms of intra-EC trade and trade between the EU and the rest of the world, the case in point is the fact that the trade patterns of the EU have significantly shifted from extra-EC trade towards intra-EC trade. Hence, the reduction or abolition of internal impediments to trade through the process of economic

integration has to some degree, stimulated intra-EC trade and to some extent, decreased or discouraged extra-EC trade.

The economy of the EU is soundly improving. Due to the vigorous export markets and better competitive European enterprises, the EU not only has experienced an augmentation in intra-EC trade, but also an increase in extra-EC trade as previously demonstrated. According to the economic growth patterns experienced thus far, it is expected that the EU may be able to uphold this growth over the medium term (European Commission 1995: 7).

Table XIII
EU Economic Growth Patterns

Country	Real GDP Per Capita (PPP\$)			GDP Growth (real annual % changes)			Average Annual Rate Of Inflation (%)	
	1960	1989	1992	1993	1994	1995	80-89	1992
Finland	4 070	14 598	16 270	NA	NA	NA	7.0	1.0
Netherlands	4 690	13 351	17 780	0.3	2.3	3.2	1.9	2.1
France	4 470	14 164	19 510	-1.0	2.2	3.2	6.5	2.3
Spain	2 430	8 723	13 400	1.1	2.2	2.8	9.4	6.1
Sweden	5 150	14 817	18 320	NA	NA	NA	7.4	1.6
Belgium	4 380	13 313	18 630	-1.7	2.2	2.7	4.5	3.8
Austria	3 910	13 063	18 710	NA	NA	NA	3.8	4.4
Germany	5 220	14 507	21 120	-1.2	2.5	3.0	2.7	5.4
Denmark	5 490	13 751	19 080	1.4	4.8	3.2	6.0	1.9
United Kingdom	4 970	13 732	17 160	2.0	3.8	2.7	6.1	4.5
Ireland	2 550	7 481	12 830	4.0	6.0	5.6	7.8	15.6
Italy	3 230	13 608	18 090	-0.7	2.4	3.0	10.3	4.7
Greece	1 470	6 764	8 310	-0.5	0.4	1.1	18.2	15.8
Luxembourg	6 110	16 537	21 520	0.3	2.3	3.0	4.4	2.2
Portugal	1 430	6 259	9 850	-1.2	1.1	3.0	19.1	12.6

Source: UNDP 1992: 187, 189; UNDP 1995: 203, 213; European Commission 1995: 11

The above chart illustrates the EU member states' economic progress in terms of Real GDP per capita in PPP\$; GDP growth in real annual percentage changes, and in terms of the average annual rate of inflation. According to the table, all member states have enjoyed a

significant increase in their real GDP per capita. This is supported by the following columns which show its GDP growth in terms of real annual percentage changes. In addition, it is noteworthy to mention that most member states have enjoyed a decrease in their rates of inflation between the years 1980-89 and 1992 (with the exception of the Netherlands, Germany, and Ireland).

A current account may be described as one of the three basic components of a country's balance of payments. It may be perceived to reflect a country's international standing since it is comprised of a country's imports and exports of goods; current income earned on international investments; current transactions undertaken by the military; travel and transportation; imports and exports of other services; and unilateral transfers including worker's remittances. From a simplistic viewpoint, a country's current account is the difference between its total credits (current income) and its total expenditures. Hence, a deficit means that a country's expenditures has surpassed its credits (Yarbrough and Yarbrough 1994: 504).

Table XIV**Current Account Balance (Millions \$ US) and Population (Million \$)**

Country	Current Account Balance (US \$ millions)		Population (millions)
	1989	1992	
	1989	1992	1994
Finland	-4 663	-4 411	5 090
Norway	8 105	9 725	15 400
France	1 420	9 164	57 960
Spain	-12 378	-21 678	39 140
Sweden	-3 922	-3 130	8 770
Belgium	4 962	7 428	10 124
Austria	-22	-505	8 031
Deutschland	67 721	-1222	81 410
Denmark	-1 192	5 061	5 200
United Kingdom	-24 227	-12 181	58 375
Ireland	-1 153	-399	3 571
Italy	-7 094	-21297	57 190
Greece	-5 175	-6 198	10 430
Luxembourg	NA	NA	398
Portugal	-1 404	-3 216	9 900
Canada	-13 722	-22 405	29 100
USA	-96 630	-47 950	260 730

Sources: UNDP 1992: 199; UNDP 1995: 205; OECD 1995: 192-195

The above table illustrates each member states' current account. Even though the majority of the signatory countries are experiencing a current account deficit, the deficit for most EU countries has been shrinking, with the exception of Spain, Austria, Germany, Italy,

Greece and Portugal. However, some have enjoyed a surplus in their current account – the Netherlands, France, Belgium, and Denmark.

Canada's current account deficit exceeds that of Italy's by 1 108 million (US) however, Italy's population exceeds that of Canada's by 28 090 million. Hence, Canada's population is less than half of that of Italy's population, yet its deficit exceeds that of Italy's. The same can be said when comparing Canada's current account to that of Spain's.

IX Conclusion

The EU is frequently evaluated against great expectations instead of against realistic or sensible actualities. The aftermath of World War Two generated sensible expectations for the eventuality of a unified Europe. However, the achievement of European unification was difficult and, will continue no doubt. Such achievement consists of merging at present, fifteen signatory countries which reflect over two hundred and seventy million people, multi-linguistic in nature, and who in the past, had been opposing enemies for a very long time. As stated by Papadopoulos (1986: 52):

The enormity of this task escaped the attention of most observers in the EC's early years and is largely disregarded by its critics as late as today. Yet when one compares that situation to, for instance, Canada's difficulty in repatriating its constitution under much more favourable conditions, one cannot help but ask, as Diebold did in 1968: "....the European Community has not created a United States of Europe or even a full economic union – but who has a right to expect that?"

In conclusion, the EU member states have achieved some level of economic development. As an international entity, it has been slowly progressing, albeit not as fast as its critics so eagerly point out, but nevertheless, it has been moving in the direction toward a higher level of economic integration. As is evident in the first half of the chapter, the EU has had its set-backs throughout its evolutionary process toward European Unification, but who has the right to expect a fast and smooth integration process?

Thus far, it has been demonstrated that economic integration can become the critical force behind the economic development of an Integrated Area. The EU is the most outstanding experiment of this kind. It has proven to be capable of performing on an international level as an entity, and its success is reflected in its increasing participation in the international arena. However, economic development experienced at the national (member state level) or federal level (EU level) may not necessarily translate into human development. Hence, economic progression does not necessarily reflect those dimensions of human life considered to be of intrinsic worth.

The following chapter is a case study of one of the EU member states. Portugal has been chosen as the country of study. The ensuing chapter is a critical examination of Portugal's human development level before and after participating in the economic integration process.

CHAPTER 4 - PORTUGAL: A CASE STUDY

I. Introduction

This chapter examines the impact of regional integration in Portugal. The pertinent question addressed is: has Portugal's involvement in the integration process had a positive effect on its economy. Specifically, has this significantly aided Portugal in the "catching up" process between Portugal and the rest of Europe. Most importantly, has accession to the EU positively affected the speed and direction of the human development level in Portugal? It begins with an examination of the Salazarist economic period because the post 1974 Portuguese economy can not be understood without reference to the dictatorship.

The myriad of economic difficulties that the Portuguese economy has had to contend with since the 1974 revolution are a direct reverberation of the Salazarist policies of the old regime which had greatly moulded and hence, determined Portugal's economic path for almost fifty years. Such a dictatorship was desirable in contrast with the political disruption practised under the Parliamentary Republic of 1910 to 1926. Therefore, it is essential to comprehend the context in which economic policy-making was handled during the 1920's and 1930's. On that account, protectionist, semi-autarkic, socially congealed strategies were favoured as a way of evading economic dependency and social disorder. Hence, economic progression during the Salazarist era was subordinate to the super-judicious economic regulation and to a semi-autarkic strategy (Leeds 1984: 15).

II. The Salazarian Legacy

Salazar's economic model (*Modelo Economico*) may be described as an assortment of multifarious set of beliefs, systems, and policies imbued with inharmonious paradoxes and inflexibilities. The aim of the regime was to keep inflation low and, to control the rate of industrialization, due to the trepidation of the creation of a conceivably disruptive urban proletariat (Leeds 1984: 15).

When Salazar became prime minister in 1932, he took on the role of mediator between the two prevailing dominant groups – one linked to the extreme right and the other to less extremist conservative forces. The following two prevailing principles in Salazar's philosophy are a reflection of the tempestuous earlier years:

- Development is disruptive and involves social costs, and therefore future development must be limited, gradual and controlled;
- Ways had to be found to unite divergent interests among the dominant domestic groups (Corkill 1993: 3).

The establishment of political, social, and economic stability was considered of upmost urgency within the Salazarist agenda. This concept of stability that permeated the *Estado Novo* (New State), had its concrete personification in the subjugation of social protest, and its most theoretical expression in the declaration of the social injustice of liberalism and socialism.

Salazar characterized the people of Portugal as a "great family," whereby every citizen's interests would be safeguarded within a political structure which allegedly conferred an equitable representation to all members of society:

The families, the parishes, the townships, the corporations, which include all citizens with their fundamental legal rights, are the bodies which compose the nation and, as such, must participate directly in the constitutions of the supreme organs of the state: this more than any other is the true expression of the representative system.
(Leeds 1984: 18)

Theoretically, the ordinances of the Regime stated that a system of representation for all segments of society was to be established. However, in actuality, it secured particular key segments into a state of immobility and noncompetitiveness. In addition, the constitution clearly asserts (article 8) every citizen's right to freedom of speech and assembly:

Public opinion is a fundamental element of the policy and administration of the state; it shall be the duty of the state to protect it against all those influences which distort it from the truth, justice, good administration and the commonwealth (Leeds 1984: 19).

However, in reality, it established laws to preclude the "abuse" of public opinion in its potential as a social force.

1) **Protectionism**

Salazar promulgated the notion of "produce and save" by pursuing policies of self-reliance and protectionism, symbolized in the slogan "orgulhosamente sos" (Corkill 1993: 6). As a result, chief sectors of the Portuguese economy were shielded from external (foreign) competition and, internal competition was greatly discouraged. In addition, colonial markets were protected as a secured channel for Portuguese exports, thus creating a dependency on foreign labour, raw materials, and guaranteed markets. Consequently, these protectionist policies not only deterred internal competition, but also sequestered the country from participating in international trade, thus, retarding its trade competitiveness as an international actor. Hence, when this blanket of protectionism was eventually lifted as an attempt to bring the country into the 20th century, the nation was left in such a vulnerable state, that it was given the status of a "young" or "developing" economy and was therefore ranked as one of the lowest industrialized countries, or one of the first developing countries.

2) **Condicionamento Industrial**

The Condicionamento Industrial was the apparatus used in controlling the pace and direction of economic progression. The aim of this institutionalized intervention was to equilibrate:

...the excess or the lack of competition, the deleterious consequences of the poor geographical distribution of industry, the industrial failures for reasons of lack of technical basis or financial guarantees, and the grave uncertainties which the working class faces when its existence is tied to the precarious life of carelessly set up workshops (Leeds 1984: 23).

It mirrored the conservative and mercantilist approach to development which viewed economic progress and technological change with apprehension and hence, perceived it as a threat to morality, family life, and industrial harmony. In essence, this statute had the authority to: protect the market shares of established enterprises; to restrict the creation and productive capacity of new firms; and to grant monopoly concessions in the modern industrial sector (Corkill 1993: 7).

The specification of which areas of the economy and which enterprises were contingent to government management was an indication of the underlying aim of the law: constrained by the law were large-scale enterprises, with the potential of automating. This technological restraint imposed by government control, in turn, affected small and medium-sized firms for the most part. The statute's objective was essentially to maintain these enterprises in a weak state. Consequently, a good portion of the sector was easily maintained in a feeble state

because the sector itself consisted of small and medium-sized firms. Hence, the above-mentioned constraints placed on these particular firms may be perceived as a medium for shifting capital flows in a specific direction (a question of who gets to accumulate).

The industrial regulation within the Salazarian Model was a methodical, institutionalized and an extensive form of constraint. While the 1931 law sanctioned competition as a catalyst to boost productivity and stated that "the state should not regulate activities that were essentially in the private sector.", the 1945 law asserts "the state will participate in the capitalization of firms directly or indirectly through its institutions of credit when it is judged indispensable to assume the success of the enterprise..." (Leeds 1984: 26).

...decrying chronically low productivity, justified the creation of monopolies to correct the deficiencies of the internal market and to develop import-substitution industries (Leeds 1984: 27).

3) **Protective Tariffs**

Protective tariffs served the purpose of effectively shielding domestic enterprises (particularly traditional ones) from foreign competition. These regulations remained operative from the 1930's to the mid-1960's. Even though these tariffs did encourage some level of internal industrialization by creating the environment or conditions for it, it also insulated the country from the urgency to modernize with regards to both technology and labour relations.

Conclusively, the **Condicionamento Industrial** and protective tariffs served the purpose of safeguarding the interests of the dominant social group of that era, who strongly supported the regime in its first half of existence (Leeds 1984: 29).

4) **The Labour Statute**

The control and manipulation of the workforce played an indispensable role in the **Estado Novo's** political economy. The statute pertaining to national labour allegedly functioned as a form of representation at all levels. It delineated the forms of representation in the trade unions, however, it failed to deliver the most minimal provisions (social justice, harmonious labour relations, and welfare).

In an effort to fragment worker's organisations, trade unions were restricted to the district level, banned from organizing territorial federations. In addition, the creation of competing worker's associations were rejected. In essence, trade unions lacked either political freedom or bargaining power.

The "**Casas do Povo**" were a form of local representation. However, in reality, this form of representation was denied any representative function. The **Casas do Povo** did not allocate the welfare and educational benefits devised at the time of their establishment. Instead of raising the standard of living through the granting of old age pensions, unemployment benefits, and medical provisions, they functioned as a form of social control.

The underlying function of the Casas do Povo and of trade unions was to ensure the isolation and dependency of the rural and urban proletarians. Profit accumulation and investment to favoured groups was given precedence over improved standards of living. Thus, a low-wage policy formed a key part in the government's strategy. This was attained by the regular supervision of trade unions and by sustaining an excess labour supply. Wages and salaries explicitly reveal the labourer's weakness in the bargaining process. For example, nominal industrial wages in 1944 rose 800% while retail prices rose 970%. This, obviously, greatly decreased the purchasing power of the working class in the region of 20% (Corkill 1993: 10).

III. Caetano's Liberalisation Strategy

Caetano, Salazar's successor, recognized that Portugal's economic structure must acclimatize to current world market conditions, in order to elevate the Portuguese economy to a compatible level for EU accession. On that account, Caetano strived to prepare the Portuguese economy for greater integration through a New Industrial Policy (NIP). This new development strategy stated that:

The state and monopoly business groups were to cooperate in the implementation of a crash modernization program...the necessary reform measures formulated by a group of technocrats.
(Corkill 1993: 31)

The expected outcome of this new policy was: the achievement of an increase in the economic growth rates; the identification of priority industries and the channelling of resources to them; and a decrease in state intervention in the market. Unfortunately, those industries identified as priorities were all large and labour intensive, while the majority of firms were SME's. The case in point is that most of the industrial sector was made up of SME's which would be faced with the threat of contraction or possibly extinction unless they modified their structures. Regrettably, the strategy was based on the risky assumption that the eventual economic success of the priority firms would inevitably pull along the SME's in their wake.

The eventual failure of Caetano's new industrial policy was due to a combination of factors. First, the new development model lacked coherence and was heavily dependent on favourable political occurrences. For example, Caetano proved unable to gain support for his policy from the new social groups. In addition, he lacked the pro-democratic and pro-European middle-class and business community support that would possibly support the reforms. Second, Caetano attempted to step into economic integration with Europe and continue to hold onto its colonial empire. Third, many industrial groups did not want to let go of their profitable African interests and therefore, sought to delay integration until military intervention capsized the old order, leaving Portugal with no other choice but to turn to Europe in its only hope for growth and stability.

Decolonization had economic consequences throughout the 1970's. In the short-term, Portugal immediately lost a guaranteed trading system (captive market) which inevitably

placed some indigenous branches of the Portuguese industry in a vulnerable situation and, Portuguese industry was left in a very weak state once exposed to international competition. In addition, Portugal was faced with the difficult task of absorbing a large influx of refugees in an already underfunded social system and with an infrastructure in desperate need of reform. Once Portugal lost its connection with the colonies, it had to depend on its own export efforts, use its resources in a more efficient manner, and was faced with the inevitable task of structural reform (Corkill 1993: 35).

IV. The State Of The Human Condition During The Regime

During the Salazarian era, (the epoch when Portugal was isolated from the industrial revolution), Portugal had the fifth highest infant mortality rate in all of Europe (33 countries listed). In 1932, Portugal's infant mortality rate was triple that of the lowest recorded infant mortality rate of that year — a difference of 101.6 more infant deaths per 1000 live births. This is illustrated in the following table:

Table XV**Infant Mortality Rate In Europe****1932**

Top 5 Countries With Highest Infant Mortality Rates (per 1000 live births)		Countries With 5 Lowest Infant Mortality Rates (per 1000 live births)	
Romania	184.8	Sweden	50.7
Hungary	183.7	Norway	46.8
Yugoslavia	167.2	The Faeroes	46.4
Bulgaria	149.8	Netherlands	46.3
Portugal	146.5	Iceland	44.9

Source: United Nations 1948: 406.

Although the general trend since 1932 has been a decrease in the infant mortality rate on a global scale, Portugal continued to have one of the highest infant mortality rates in Europe three decades later as illustrated in the table below:

Table XVI**Profile of Human Development**

Country	Infant Mortality 1961	Health Total Exp % of GDP 1960	Education Total Exp % of GDP 1960	Illiteracy % of Pop +15 1970-75
Portugal	88.8	0.8*	1.8*	29
Yugoslavia	82.0	3.2*	3.3	17
Romania	71.4	2.0*	2.9*	NA
Albania	79.5	NA	NA	NA

* Public expenditure only

Source: UNDP 1992: 189; United Nations 1965: 727-728; World Bank 1995: 5, 277, 285, 377

The continued high infant mortality rate in Portugal during the dictatorship is a reflection of the government's lack of responsibility and indifference toward the human condition of its population (in terms of basic services). This is expressed in the governments total expenditure on health and education as percentage of the GDP, also reflected in the population's illiteracy rate. As illustrated in the above table, there appears to be a negative correlation between the infant mortality rate and the governments total expenditure on health as a percentage of the GDP. These two indicators clearly depict a pattern -- the lower the expenditure on health, the higher the risk of neonatal and post neonatal deaths per 1000 live births due to: lack of prenatal care; inaccessibility to health services; and unsafe living conditions which foster infectious and often fatal diseases for the infant. By the same token, there exists a correlation between the persistent high infant mortality rate and the governments

low expenditure on education. This is supported by the high illiteracy rate which also plays a major role in the outcome of birth. The absence of prenatal care may also be a result of the expectant mother's ignorance due to a lack of education on the importance of prenatal care. Therefore, a successful intervention during delivery is highly dependent on whether or not prenatal care was sought. Accordingly, sexually transmitted diseases and drug and alcohol addiction are also contributing factors to infant mortality and, are undoubtedly a direct consequence of the lack of educational awareness on behalf of the expectant mother.

In the case of Portugal, this is supported by the contradictions previously highlighted under the Labour Statute section of this chapter. As previously stated, the Statute pertaining to national labour was in theory a form of representation at all levels, but it failed to deliver the most minimal provisions: social justice, harmonious labour relations, and welfare. More specifically, the "Casas do Povo" did not allocate the welfare and educational benefits devised at the time of their establishment. On that account, the Labour Statute's underlying strategy was social control, synonymous with repression, at the expense of medical and educational provisions.

In addition to the gross inadequacies within the medical and educational system, the Salazarian regime supported itself on the backs of the workforce. In essence, it was through the manipulation and exploitation of the working poor that enabled the regime to survive for thirty years. The workforce was continuously maintained in a weak and repressive state through the government's success in fragmenting worker's organizations and dejecting

competing worker's associations. On that account, it is not surprising that labour unions were non-existent. Furthermore, the majority of workers were forced to work under unpleasant and at times, unsafe conditions, for earnings that could not even buy the bare necessities. These harsh living conditions were further amplified by the non-existence of social security benefits.

The earthly reality of the working poor is best compared to a prison without walls. That is, as a worker, the individual did not possess the necessary tools needed to claim humane working conditions, social security benefits, and better wages. Overall, the working poor were looked upon as simply a part of the machinery, to be used when needed and disposed of without the slightest concern for their welfare. From a human development perspective, life in a North American prison may be categorized as consisting of those characterizations that constitute a high human development level in comparison to the Portuguese working poor during the dictatorship.

V. Portugal And EFTA

Portugal began to open her doors to Europe long before her accession to the European Union in 1985. The effects of integration had already developed in absolute significance during the first phase of European integration in 1958, with the establishment of the European Coal and Steel Community (ECSC). During that time period, the founding EU members already accounted for a substantial portion of the external economic relations of Portugal in the domain of trade, investments, technology and immigration. However, the establishment of the

Common Market meant that preferential treatment was restricted to EC members only, and the formation of a common external tariff wall was imposed against non-members such as in the case of Portugal. Consequently, Portugal's exclusion posed difficulties for its economy. It is important to note that Portugal was not eligible for membership at that time because of its non-democratic government and of its reluctance to let go of its colonial empire. Consequently, Portugal and other OEEC members established the European Free Trade Area (EFTA) in 1960 as an alternative. Portugal's membership in EFTA was viewed by many technocrats and dynamic industrialists as a much needed impetus to the Portuguese industrial economy which was considered one of the least developed in Europe. This was Portugal's first significant step towards changing its trade patterns by participating in the arena of international trade.

When Portugal became a member of the European Free Trade Association, the majority of the Portuguese factories and workshops employed less than ten people. Portugal's inability to compete with the rest of Europe was highly associated with the fact that its industrial sector was largely made up of small and medium sized industries (SME'S).

In general, the impact of EFTA membership had a positive influence on the Portuguese economy. First, the EFTA convention (Stockholm) acceded Portugal the rank of a young economy, equivalent to the status of a developing country and thus it:

allowed for significant margins of protection for Portuguese infant industries and, a comparatively long transitional period was established for the dismantling of barriers against imports (Lopes 1993: 1).

Second, unobstructed access to EFTA markets rigged the foundation for an export-oriented system of industrialization. This in essence, was to give Portugal an opportunity to catch-up with the rest of Europe. This is reflected in the increase in Portuguese exports destined to EFTA markets during Portuguese membership in EFTA (1960-1973). It is said that EFTA membership was a contributing factor to the GDP growth during the duration of the membership. In essence, EFTA had somewhat facilitated the process of integration to the European Union, by slowly doing away with most of the barriers to the bilateral trade in non-agricultural goods between EU and Portugal (Lopes 1993: 2).

In general, the consequences of EFTA membership were overshadowed because of a number of variables: first, the Condicionamento Industrial and external protective measures were still in effect; second, the oil price shock of the 1970's; and third, the difficult transition to a democratic regime.

The European Free Trade Agreement was Portugal's chief connection to the international economy until 1972. In 1972, Portugal took its second step toward closer links with Europe when it signed a trade agreement with the EC, previously consisting of the nine member states.

The trade agreement with EC-9 was similar in its structure to the former agreement with EFTA. Like the previous EFTA arrangement, Portugal was granted special provisions which included the authority to maintain the protective barriers for its own industry and

concessions for some agricultural exports such as wine and tomato concentrates (Corkill 1993: 17).

VI. Portugal And The EU

Portugal first applied for membership back in March of 1977 for various reasons. From a political perspective, it applied for membership to ensure political stability, and to ensure that a return to dictatorship would not occur again. From an economic perspective, Portugal sought membership because it found it difficult to survive in a competitive and protectionist-minded trading environment. It soon became clear that Portugal would do better as part of a powerful trading conglomerate such as the EU, than compete in the international arena alone. Portugal's major trading partner, the United Kingdom, joined the EC in 1972, this in essence raised tariffs and protective barriers against Portuguese exports. In addition, the Portuguese industrial sector faced strong competition from the NIC's and Southern Europe, and the uncertainty that EU exporters would pose a more serious challenge than EFTA's (Corkill 1993: 91). Unfortunately, admission for EU membership at that particular time was denied for two reasons: first, Portugal's political status was not democratic; second, Portugal during that time frame, was unwilling to let go of its colonial empire (Cardo 1976: 22).

By the year 1980, Portugal met the democratic credentials necessary for EU membership and fewer problems were expected during Portuguese accession in comparison to

Greek accession. However, Portuguese accession was put on hold while the EU grappled with a major issue of its own – the functioning and reform of its own structures.

Portugal and Spain were to accede in 1981 along with Greece. Unfortunately, southern accession had to wait until Greece's economy had developed to an acceptable level of compatibility for EU integration (Corkill 1993: 89). Member states were troubled that the integration of more semi-industrialized countries would further aggravate the already serious structural problems that were in need of reform. The internal problems of the EU concerned three major issues: the reform of the Common Agricultural Policy, the EU budget, and the decision-making process. It was concluded that the above mentioned issues should be settled before further complicating matters by accepting more members. In addition to EU's structural problems, Portugal and Spain's application for membership came at a time of world recession. Nevertheless, pre-accession assistance was granted to Portugal and Spain in order to narrow the gap with regards to the level of development between the upcoming members and the existing member states. Financial aid was to help bring up the standard of living and to alleviate somewhat regional poverty (Salvemini 1983: 229).

Almost a decade had passed before entry terms between Portugal and the EU were agreed upon and full membership granted in June of 1985 which became effective the following year on the 1st of January of 1986.

VII. Community Structural Funds

As previously mentioned, Portugal was granted pre-accession assistance in the form of financial aid in order to raise the standard of living and to alleviate regional poverty. This financial aid was in essence, secured once Portugal became a member of the EU in 1985.

The main objective of regional development policy in the EU is to create the necessary conditions needed to decrease regional inequalities within the Union. On that account, priority is given to those geographic areas considered to be in greater need of assistance whom show a greater need for assistance regarding its infrastructures. Such financial aid includes the so-called community structural funds. The community structural funds include the European Orientation and Agricultural Guarantee Fund (FEOGA-Orientacao), the European Social Fund (Fundo Social Europeu), and the European Regional Development Fund (Fundo Europeu de Desenvolvimento Regional).

1) FEOGA-Orientacao

FEOGA-Orientacao was established in 1962 as a principal instrument and financial aid to the Politica Agricola Comum (Common Agricultural Policy). Its purpose was to improve the existing agricultural structures and to establish a common organization of the agricultural markets (Fernandes 1981: 56).

2) **Fundo Social Europeu**

This form of financial aid was established to improve the possibilities or chance of employment for workers, and to contribute to raising the standard of living. The regulation # 9/60, once operational, regulated the modalities of implementation of the foreseen support, expressed in article # 125 of the EEC Treaty: support for the re-education of the unemployed; for the re-installation of the workforce in case of a change in locality; and to workers affected by the firm's reconversion process to other products, in the sense of guaranteeing the same remuneration until they are re-employed (Fernandes 1981: 64). In 1977, regulations were extended thus permitting the extension of benefits of the European Social Fund (ESF) to all individuals that are part of the active population (Fernandes 1981: 67).

3) **Fundo Europeu de Desenvolvimento Regional**

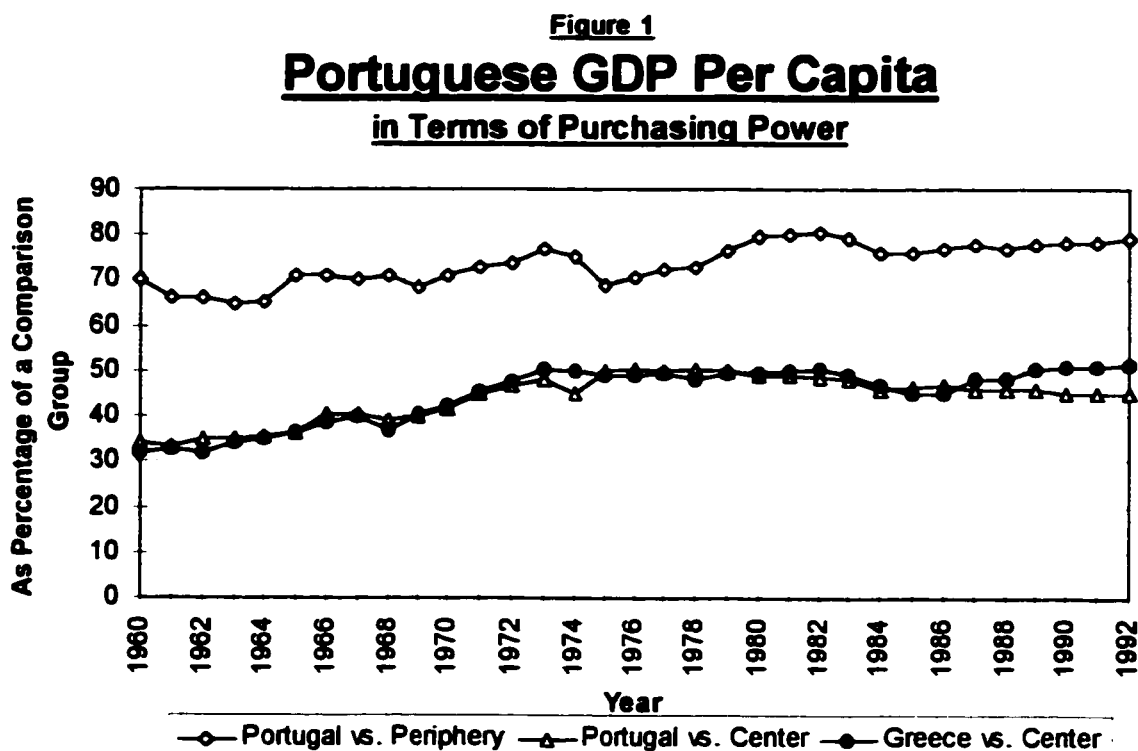
The objective of the European Regional Development Fund is to reduce regional inequalities by co-financing investment projects in the sectors of industry, in infrastructures, community programs and national programs of community interest (Fernandes 1981: 74).

The community structural funds are a means of giving financial assistance in raising the standard of living and in alleviating regional poverty. These funds were the financial instruments used in decreasing regional inequalities. Therefore, the pertinent question to be addressed is whether or not this assistance results in an increase in the level of development

for the recipient country? Specifically, does Portugal's participation in the economic integration process, in this specific case, accession to the EU, result in an increase in both economic and human progression?

VIII. The Portuguese Economy Since EU Accession

Portugal's economic achievement within the last three decades will be analysed by observing the "catching-up" process in relation to two sets of EU countries, the "periphery" (Greece, Ireland, Spain) and the "centre" (richer EU members), by examining the growth of the relative real income. This is illustrated in the following graph:

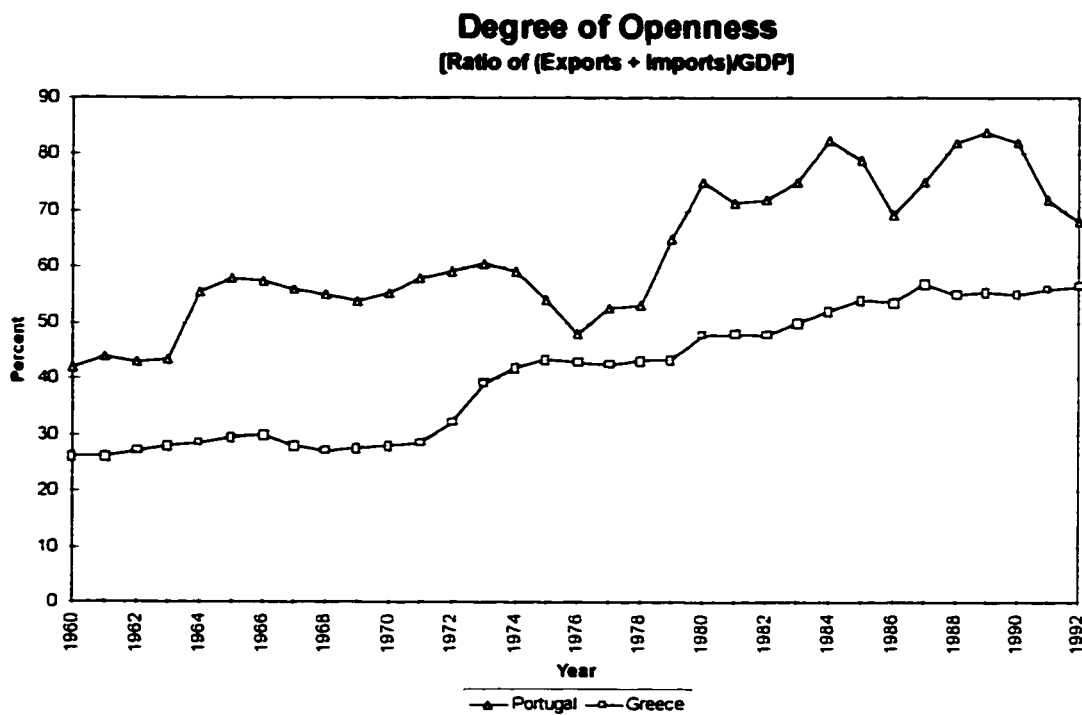


Source: Lopes 1993:11

According to Figure 1, three outstanding factors emerge:

1. In relation to the richer member states (Portugal vs Centre), there is evidence of a significant "catching-up" process of the Portuguese GDP by around seventeen percentage points. This continued until the year 1973. It has since remained at approximately fifty percent of its income level.
2. As for Portugal vs the "periphery," the comparison may be characterized by three identifiable phases: First, during the early 1960's, Portugal was outperformed by the above noted peripheral countries; second, the peripheral countries were outperformed by Portugal during the 1970's; and third, Portugal has fluctuated around its new position since then.
3. In relation to the advanced member states (Portugal vs centre), there appears to be a recent phase in the "catching-up" process. It is noteworthy to mention that this new phase commenced in 1986 – the year Portugal became an "active" member of the EU (Lopes 1993:11).

Figure 2



Source: Lopes 1993: 12

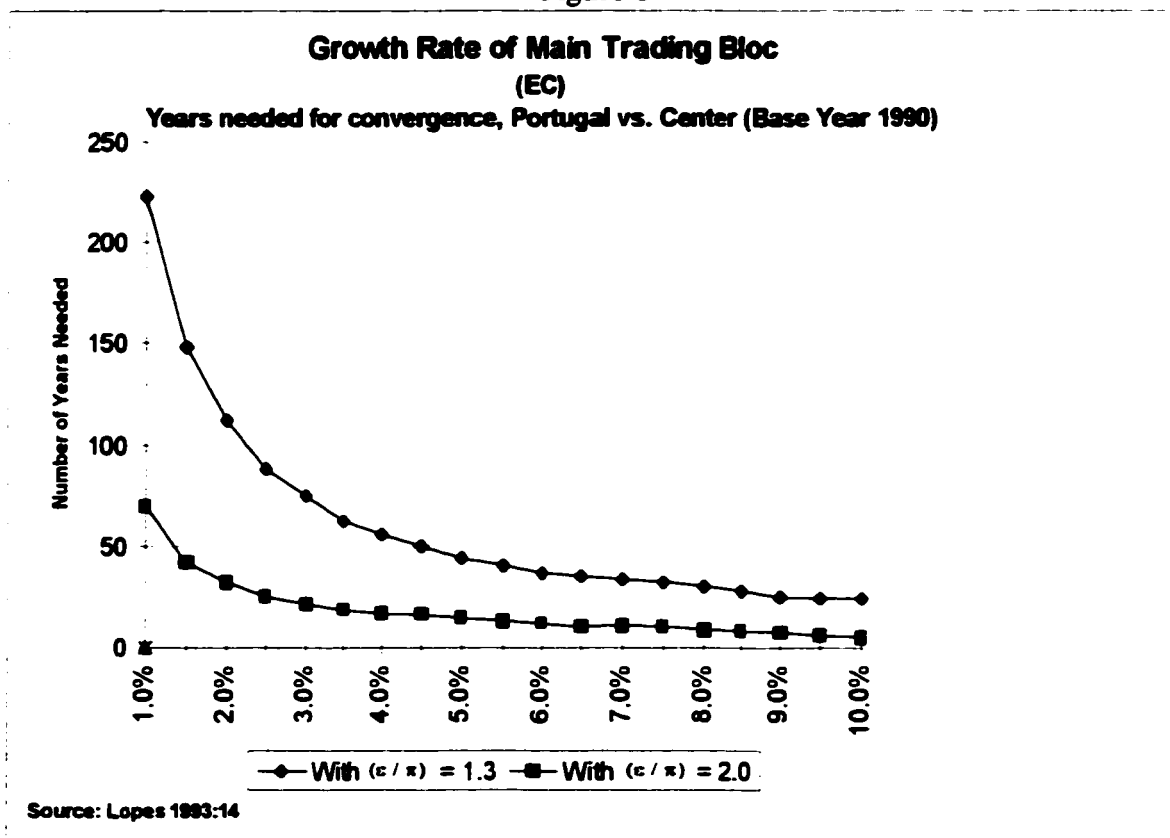
Since Portugal's participation in the integration process, its degree of openness (ratio of (exports+imports)/GDP), has increased. This augmentation is identifiable during the three phases of Portuguese integration:

- 1962-1966 EFTA Membership
- 1976-1981 Free trade area between EU and EFTA
- 1986-recent EU Membership

Portugal's economic development (the narrowing of the economic gap between it and its EU members), seems to be dependent on the EU's own economic progression and regression. This is an indication that the narrowing of the economic gap is pro-cyclical and externally driven. Hence, Portugal's economic progression in the distant future is dependent on the income elasticity of demand for imports and exports, and on the world economic growth rate which, from a simplistic perspective, is analogous to EU growth rate since the European Conglomerate embodies over half of the Portuguese market. On that

account, the Portuguese multiplier(ϵ/π) must be greater than the EU multiplier in order for the narrowing of the economic gap to occur. According to Lopes, this is what has been happening for the past three decades whereby calculations (estimates) of these demarcations (parameters) indicate values ranging from 1.1 to 1.7 for Portugal, and 0.9 to 1.2 for the most advanced EU member states. Nevertheless, in relation to the above mentioned values, the speed of convergence in regards to the EU average is to a great extent, reliant on its own growth, since it in turn, is subject to the unequivocal 'difference' between the growth rates of the EU and Portugal. Hence, "if this one is a multiple greater than one of the former then the faster is the catching up process" (Lopes 1993:13).

Figure 3

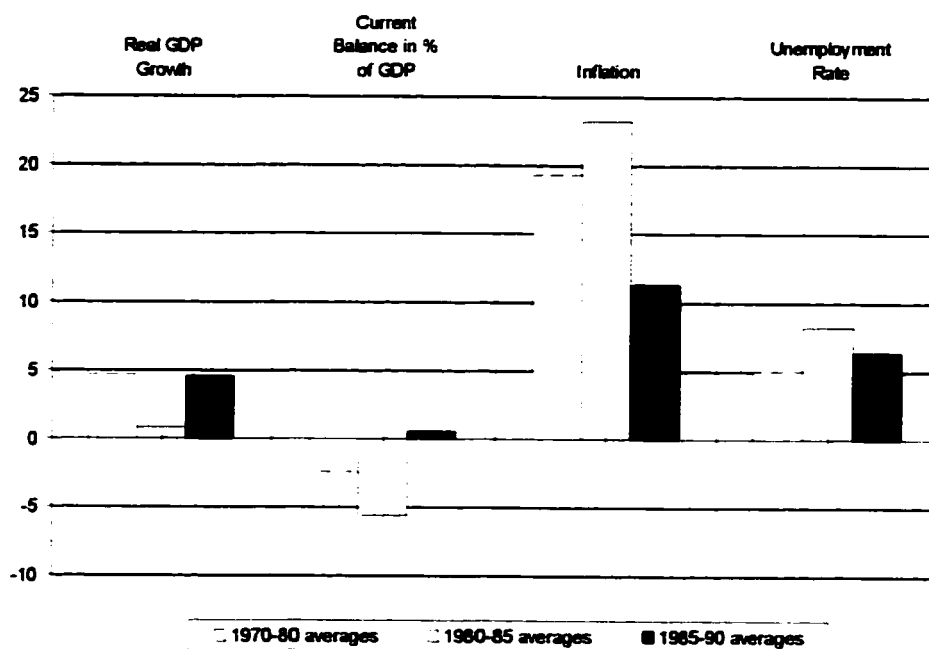


On that account, the rationalization for the eventual arrest in the income disparities between Portugal and the Center was due to the fifty percent decrease of EU growth rate experienced in the 1970's and 1980's (diagram above). However, the absolute cessation in convergence can only be justified by Portugal's difficulties with regards to its balance of payments and its terms of trade losses within the past twenty years. Nevertheless, the recovery experienced on a global scale between the years 1978 and 1979, had boosted the multiplier growth rate to a degree that enabled it to compensate for the real terms of trade losses and for the current account. In contrast, the growth rate experienced between the years 1986 and 1992 was a consequence of the significant increase in the terms of trade which, combined with EU financial assistance through transfer payments, aided Portugal's terms of trade losses (Lopes 1993: 14).

EU membership has had a positive effect on the Portuguese economy regarding activity and employment. The output growth significantly increased to an average of four and a half percent between the years 1986 to 1990. This is in sharp contrast to the three percent in the preceding decade. This rate of output growth surpassed that of the OECD. Additionally, the unemployment rate decreased by fifty percent by the year 1990, ranking the Portuguese unemployment rate one of the lowest among OECD countries. Furthermore, the high inflation rate was reduced from twenty percent to an average of less than twelve percent as illustrated in the following graph:

Figure 4

Evolution of Economic Performance



Source: OECD 1992: 12

EU accession has also made possible for Portugal to address fundamental structural reforms devised to enhance the performance of markets as resource-allocation mechanisms. The earlier sales tax system was displaced by a value added tax in 1986, and in 1989, the outdated income tax was revised by reducing effective marginal rates, expanding the base, and decreasing the chances for evasion. Furthermore, the revision of labour-market legislation in 1989, allowed a reduction in rigidity by facilitating lay-offs. Increasing privatizations have been a causal factor in reducing the size of the public enterprise sector, which in turn, should reduce state intervention, thus heightening performance, stimulating competition and efficiency, and decrease government debt.

Between the years 1990 and 1991, real disposable income growth exceeded rates higher than any other evidenced in the previous decade. With sustained employment gains and an acceleration in real wages, there was a rise in real labour incomes (an average of more than seven percent). The decision to devise a fourteen month of pension payments in 1990, resulted in an increase of transfer payments to households. In the aftermath of the surge associated with the 1989 tax reform, tax payments began to subside. However, the recent improvements made to the social-security system, accompanied by a favourable employment situation, encouraged the saving ratio to further decrease, reduced income uncertainty, thus reflecting an increase in consumer confidence (OECD 1992:69).

1960, Portugal, along with its European neighbours participated in European Integration through the establishment of EFTA as an alternative to EU membership. Since Portugal's participation in the European Integration process, the economic gap between Portugal and its European neighbours has narrowed. However, the catching-up process seems to be dependent on the EU's own economic performance, reflected in the 1973 recession.

Even though the Portuguese economy continues to be one of the least developed EU member states (characterized by an inflexible sectoral structure in comparison to other member states), its structural parameters permit a more rapid growth in comparison to the leading European countries. This in turn, assures for the continuance of the catching up process on the

grounds that growth is not restrained because of the difficulties experienced with the balance of payments.

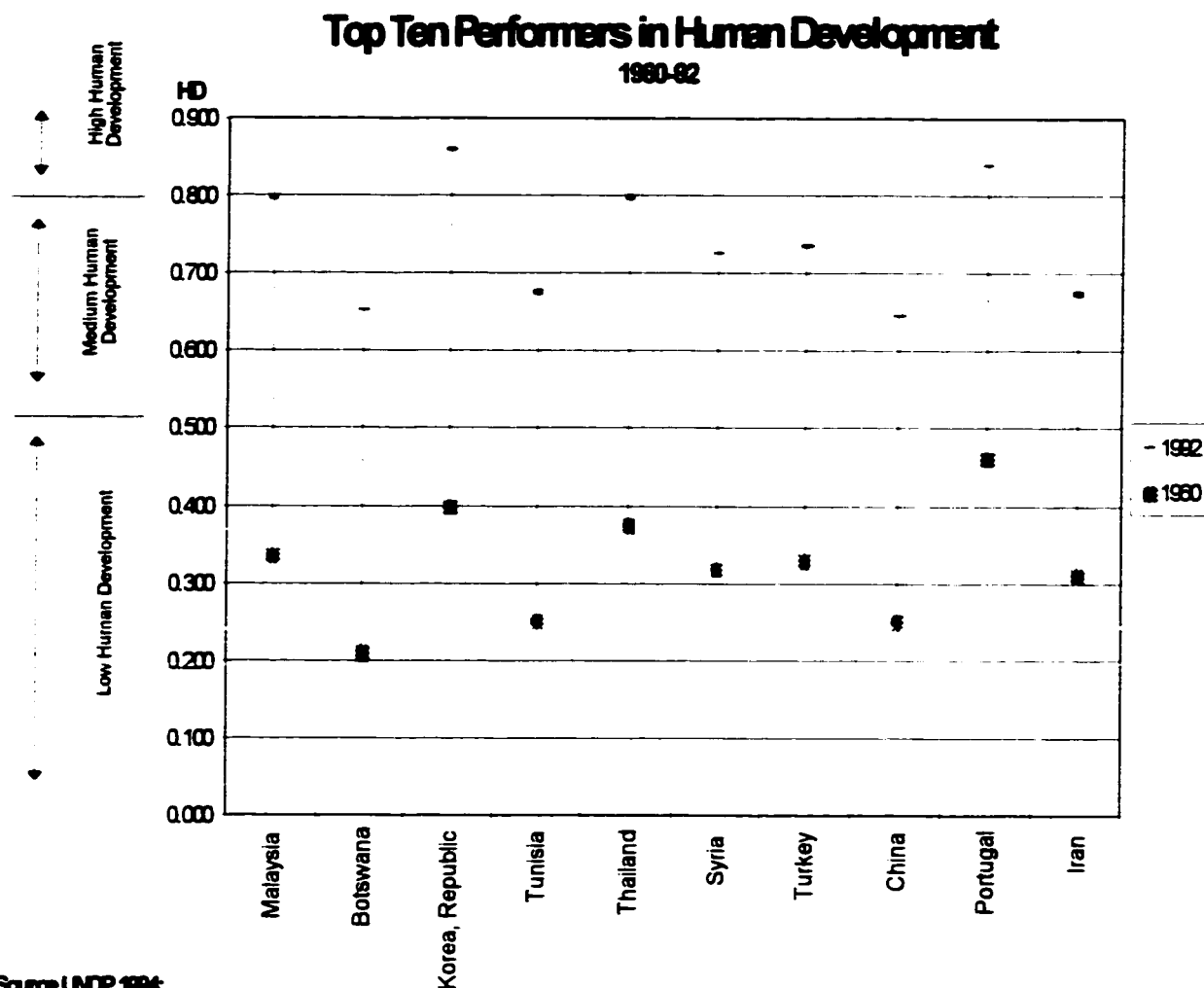
The economic progression in Portugal is externally driven, that is, it is dependent on the EU's economic performance. Therefore, it may be assumed that the policies utilized in fostering economic integration have had some positive effect, albeit a small effect, on the rate of economic progression of the Portuguese economy. Thus far, the development level within Portugal has been assessed in economic terms. However, the economic perspective is solely a measurement of economic growth and therefore, it excludes the human dimension of development. It is important to note that economic progression experienced within a country does not necessarily ensue or eventuate into human development. In essence, economic development experienced on a national level does not ensure that the presumed beneficial effects of that development will trickle down to the average citizen. Unfortunately, economic development, at times, may function as a "smoke screen" which obscures the actual development level of a country in relation to the human condition. On that account, any analysis of a country's development level should not only include economic indicators, but also indicators that reflect the human condition since development, in relation to the human condition, is multi-dimensional and therefore demands more than just an evaluation of economic progression. Hence, any assessment of the development level of a country should be a realistic reflection, or at least, a close approximation to the multi-dimensional state of human life. Thus, economic growth in itself is an imperfect measurement of development. On that

account, the chosen measurement of development should encompass indicators that shed light on those social conditions that the economic perspective cannot:

...whether children live or die; whether people eat well, are malnourished or starve; whether women lead healthy and tolerable lives or are burdened with annual childbearing, the high risk of maternal mortality, and the certainty of lifelong drudgery; whether humans control their lives at work or are "details" of the machinery, spending most of their lives in tough, unpleasant activity, at the dictation of management and machinery; whether people have access to work at all; whether people control their political lives or are subject to arbitrary decisions taken by others, with the possible removal of their liberty and even their lives for political reasons; whether their education is sufficient to permit men, women and children to participate in the world around them as full members of society with some control over their destinies, rather than as victims in a world where to be uneducated is akin to being blind, and where schooling is a universal passport (Haq and Kirdar 1986: 29).

The vital question that needs to be addressed is how does one measure the progression of the factors such as those stated in the quote? As previously mentioned in chapter one, the assumed continuance of human progression is dependent on the children of the present. Hence, the perpetuity of progress in health care services, social programs, and reforms that affect the well-being of a population are necessary. On that account, the infant mortality rate, educational attainment, and social security benefits are indicators considered to be multi-dimensional in reflecting the state of the human condition. On that account, they are excellent measurements of human progression because they highlight socio-economic factors that are underlying causes of human deprivation.

Figure 5



IX. The State Of The Human Condition Since Portugal's Participation In the Economic Integration Process

Up until now, it has been demonstrated that a correlation exists between Portugal's participation in the economic integration process and its economic achievements. Hence, Portugal's involvement in the integration process has had a positive effect on its economy, and has therefore significantly aided Portugal in the "catching-up" process between it and the rest of Europe. However, the focus of this chapter is not Portugal's economic performance

since EU accession, but the speed and direction of the human development level of its population since Portugal's involvement in the integration process.

According to the United Nations Development Report of 1994, Portugal was among the top ten performers of human development whom made significant progress in improving the well-being of its population. Over a thirty year time period, Portugal significantly increased its HDI performance from 0.460 in 1960 to 0.838 by 1992.

Table XVII

Portugal's HDI values

1960	1970	1980	1992
0.460+	0.588	0.736>	0.838

+ country moving from low to medium human development

> country moving from medium to high human development

Source: UNDP 1994: 105

According to the preceding graph and table, Portugal has moved from a low level of human development in 1960, to a relatively high level of human development by 1992. In addition, Portugal has made prescient use of its income in improving the human development status of its population. This is clarified in the following table:

Table XVIII
HDI Ranking for EU Member States
(1994)

Country	HDI Value	HDI Rank	GNP Per Capita Rank	GNP Per Capita Rank minus HDI Rank
Sweden	0.928	4	4	0
France	0.927	6	13	7
Netherlands	0.923	9	16	7
UK	0.919	10	19	9
Germany	0.918	11	12	1
Austria	0.917	12	14	2
Belgium	0.916	13	15	2
Denmark	0.912	15	7	-8
Finland	0.911	16	6	-10
Luxembourg	0.908	17	2	-15
Ireland	0.892	21	27	6
Italy	0.891	22	17	-5
Spain	0.888	23	23	0
Greece	0.874	25	35	10
Portugal	0.838	42	38	-4

Source: UNDP 1994: 93

According to the UNDP, the relationship between the HDI rank and the GNP per capita rank is significant in the sense that it informs whether or not a country uses its income for the purpose of elevating its human development level. Hence, if a country's HDI rank surpasses its GNP per capita rank, it is said to have made prescient use of its income in

improving the human development status of its citizens. However, if a country's HDI rank is below its GNP per capita rank, it has not used its income to the "fullest" in improving the well-being of its population.

According to the above table, Portugal has succeeded in utilizing its income for the purpose of improving the human condition of its population. This may be taken a step further by comparing the total expenditure of the GDP spent on health and education in the early 1960's and 1990's:

Table XIX

Profile of Human Development

Infant Mortality Rate (Per 1000 live births)		Health (total expenditure as % of GDP)		Education (total expenditure as % of GDP)		Illiteracy as (% of population age 15+)	
1961	1993	1960	1991	1960	1991	1970-75	1988-93
88.8	9.3	0.8*	6.2	1.8*	5.5*	29	15

* public expenditure only

Sources: United Nations 1965: 728; UNDP 1992: 189; World Bank 1995: 277; United Nations 1993:150; UNDP 1994:196

In 1961, Portugal had the highest infant mortality rate in all of Europe. This is consistent with the very low expenditure on health and education as percentage of the GDP, supported by the high illiteracy rate. However, by the early 1990's, the total expenditure on health and education as percentage of the GDP had risen dramatically. Therefore, one notices a negative correlation between the total expenditure on health and education as percentage of

the GDP, and the infant mortality rate. According to the table, the higher the expenditure on health and education as percentage of the GDP, the lower the illiteracy rate and consequently, the lower the infant mortality rate.

According to the World Development Report of 1994, Portugal was ranked as one of the six highest contributors toward basic services in the context of the twenty-one countries identified as upper-middle income economies for the latest statistical year of 1992. Portugal ranked as: the sixth highest contributor toward education; the second highest contributor toward health services; and ranked fourth in terms of the contribution of its GDP toward social security benefits.

It is important to note that an analysis of the state of the human condition within a population should constitute more than one socio-economic indicator in order to portray a realistic, or at least, a close approximation to the human development level of a population. In this case, the infant mortality rate, social security benefits as percentage of GDP, and educational attainment combined, give us a close approximation to the state of the human condition of a population. All may be defined as socio-economic indicators, however, combined they shed light on hidden problems within the system that otherwise could not be pin-pointed if they were not combined. Such is the case with infant mortality and percentage of GDP spent on health. Hence, a country whose contribution toward health is significant, yet it has a high infant mortality rate, is an indication of a dysfunction or breakdown within

the system (in the context of those government provisions aimed at improving the human development level of a population).

I. Gender Disparity-Adjusted HDI

In 1994, Portugal was ranked forty second according to the HDI. However, if one were to "gender-adjust" the HDI, the original ranking of the countries would inevitably change because gender inequality is experienced in varying degrees within and between countries.

Table XX

Gender Disparity Adjusted HDI

(1994)

Females as % of

Males

Country	HDI Value	Life Expectancy (a)	Educational Attainment	Adjusted Real Income	Average Male-Female Ratio For The Three HDI Components (%)	Gender Disparity Adjusted HDI	% Difference Between HDI and Gender-Disparity-Adjusted HDI	Difference HDI and Gender-Disparity-Adjusted HDI Rank (b)
Sweden	0.928	101.0	100.0	83.4	94.8	0.880	-4.8	3
Finland	0.911	104.1	99.4	69.4	91.0	0.829	-8.2	13
Portugal	0.838	102.7	86.8	59.7	83.1	0.696	-14.2	5
Greece	0.874	100.4	90.6	38.8	76.6	0.669	-20.5	-1

- a) adjusted for natural biological life expectancy advantage for females.
b) a positive figure shows that the gender-disparity adjusted HDI rank is better than the unadjusted HDI rank, a negative the reverse.

Source: UNDP 1994: 106

According to the above table, Portugal, Sweden and Finland have actually improved their HDI rank once the original index had been gender-adjusted. After the gender-disparity adjustment, Sweden went from an HDI rank of 4 to 1. Finland jumped from 16th rank to 3rd, and Portugal improved its HDI rank by surpassing Greece. Furthermore, Portugal has lessened its male-female gap in terms of gender inequality according to the column on the far right. In fact, its gender-disparity HDI is better than the original HDI rank.

Table XXI

The Working Conditions of the Employee

(an international comparison)

Country	Real GDP Per Capita (PPPS) 1992	% Labour Force Unionized 1990	Discouraged Workers As % Of Total Labour Force 1993	Expenditure On Labour Market Programmes As % Of GDP 1993-94	Involuntary Part-time Workers As % Of Total Labour Force 1993	Annual Leave Days & Holidays Per Person In Manufacturing 1993
Canada	20 520	36	0.9	2.6	5.5	NA
Japan	20 520	25	2.2	0.4	1.9	22
U.S.A	23 760	16	0.9	0.7	5.0	23
Portugal	9 850	32	0.1	2.0	1.8	36
France	19 510	10	0.2	3.3	4.8	36
Spain	13 400	11	0.2	3.6	1.0	36
United Kingdom	17 160	39	0.6	2.2	3.2	33

Source: UNDP 1996: 194, 195; UNDP 1995: 196; UNDP 1993: 200

The state of the human condition in Portugal has risen since its participation in the European economic integration process. The working conditions of the Portuguese employee have also experienced similar improvements. The following is a comparison of the

Portuguese working conditions against six countries: three EU countries and three non-EU countries.

According to the above table, Portugal has the lowest national income level of all the six countries listed. However, Portugal allocates considerably more of its GDP toward labour market programmes than Japan and the U.S.A. Moreover, the 'unionization' of the Portuguese work force is significantly greater in comparison to that of Spain's, France's, and the U.S.A's. In the context of the six countries listed, Portugal has the lowest percentage of discouraged workers and involuntary part-time workers of its total labour force.

X Conclusion

Eu membership has given Portugal much needed assistance in the form of community structural funds in the attempt to resolve the prevailing infrastructural weaknesses and to improve the country's physical and human capital.

Portugal's participation in the economic integration process has to some degree, contributed to the rise in the human development level presently experienced in Portugal. However, it is important to note that economic integration may not be the only contributing factor – such a study would involve in-depth research that is beyond the scope of this thesis.

Nevertheless, it is sufficient to state that participation in the economic integration process does contribute to a significant degree, to the rise in the human development level of a country.

CONCLUSION

The objective of the thesis was to assess the impact of European integration on Portugal's level of human development. Specifically, whether the European integration process had a positive effect on the Portuguese economy and most important, its result on the level of human development in Portugal.

Human development proposes a unique approach in analyzing the process of development. It focus' on the improvement of the state of the human condition. It is the process of gradual long-term change in the conditions affecting human life. The human perspective sheds light on those social conditions that the economic perspective cannot. It takes into account non-economic factors such as health conditions, working conditions, and political freedom.

The state of the human condition is multi-dimensional and therefore, no one indicator is sufficient in measuring human development. As a result, the HDI was the chosen measurement to assess the impact of European integration on Portugal's level of human development.

It was understood that the HDI would be subject to future revisions, when it was first introduced in 1990. The current UNDP HDI includes three indicators whose statistical value is a reflection of longevity, educational attainment, and standard of living. However, it is

postulated that two of the three indicators that make up the current HDI do not reflect the three "cornerstones" of human development – health, educational attainment, and standard of living.

Chapter one dealt with the concept of human development and its theoretical construct. Two of the three original HDI indicators were replaced with two new indicators that better illuminate the state of the human condition. It was ascertained that 'social security benefits expenditure as percentage of GDP,' is a better indicator in measuring the standard of living within a population in comparison to 'real GDP per capita.' In addition, the health status of a population is a better reflection of the state of the human condition than longevity. Accordingly, the 'infant mortality' rate is a better measurement in assessing the health status of a population in comparison to 'life expectancy.'

Economic integration can become a critical force behind the economic development of an Integrated Area. The European Union is one of the most outstanding experiment of this kind. It is capable of performing on an international level as an entity, and its success is reflected in its increasing participation on a global scale. It is slowly progressing toward a higher level of economic integration. Nevertheless, the EU has had its setbacks throughout the process toward European unification.

This study examined the effects of European economic integration in Portugal. It put forth the hypothesis that Portugal's participation in the European economic integration process has played a major role in the maintenance of political stability and in the growth of the

Portuguese economy. This in turn, has to an extent, been a causal factor in the improvement in the state of the human condition through financial aid in the form of Community Structural Funds.

Economic integration and cooperation are expanding phenomena evidenced on a global scale. Countries are choosing to cooperate or integrate as a means of obtaining and/or maintaining their status in a world-capitalist economy. Even though a return to arms is unlikely to occur nowadays, the possibility of an "economic invasion" and peripheralization remains a reality. This possibility is increased by choosing not to participate in the economic cooperation or integration process. Hence, to be part of an integrated area reduces this threat.

From 1933 to 1974 Portugal was under a dictatorship by a conservative authoritarian establishment referred to as the Estado Novo (New State) under the leadership of Antonio de Oliveira Salazar (acting premier). The Salazarian dictatorship succeeded in consolidating and reducing the national debt through its fiscal reforms which continuously produced budgetary surpluses. Unfortunately, these economic achievements took precedence over the progression of the human condition of the Portuguese people.

The Salazarian regime was portrayed as a "parent" who proclaimed an unfounded need to protect its "children" (Portuguese people) from falsely perceived destructive external forces. However, during the course of the dictatorship, it soon became apparent that the framework of the Modelo Economico (Economic Model) was planned constraint at the expense of the

majority. In essence, the Modelo protected the interests of the elite while maintaining the majority in a powerless and fragile state.

The State controlled people's lives. They were subject to arbitrary decisions arising from the Statutes of the Regime. Political protest meant the loss of freedom and possibly death. The People did not possess the "political instruments" necessary for the proclamation of those social provisions considered intrinsic to the progression of human development. The total disregard for the well-being of the People is reflected in the less than satisfactory medical, educational, and welfare provisions. This is mirrored in the persistent high infant mortality rate, the high illiteracy rate, and in the lack of social security benefits evidenced during the course of the dictatorship.

The National Union was the only legal organization during the dictatorship. Hence, local governments were subject to centralized control. Even though the legal and judicial system was to a great extent, independent from the political establishment, this served no justice for the majority of the population:

...freedom of assembly, association, and the press, and the right to protest and strike, were severely circumscribed. Persons accused of crimes against the state could be held legally for three years without being charged (Hasley and Friedman 1984: 273).

Accordingly, "Portugal's long tradition of creativity in the arts was arrested to a substantial degree....censorship was severe, and the media in general were controlled" (Hasley and Friedman 1984: 279).

With the overthrow of the Salazarian-Caetano regime on April 25th of 1974, many democratic liberties were restored. The "political tools" that the People needed were now restored back to them. The much needed social provisions were within reach. However, decolonization had serious economic consequences: the loss of a captive market which considerably weakened the Portuguese industry; the difficulty of absorbing a large influx of refugees, only aggravated the existing underfunded social system; and an infrastructure in desperate need of reform. These economic difficulties had a detrimental effect on the already underfunded social system. In addition, Portugal was faced with the serious problem of political instability which had persisted since the Revolution of 1974. Hence, in 1977, Portugal turned to Europe in its hope for growth and stability.

Portugal's participation in the European economic integration process has to a significant degree, resulted in the rise in the human development level in Portugal. EU assistance in the form of financial aid (through the European Community Structural Funds) was granted to Portugal with the aim of raising the standard of living and alleviating regional poverty. In accordance with the European regional development policy, priority is given to those geographic areas considered to be in greater need of assistance. Portugal met those qualifications. Since EU accession, there is evidence of a high correlation between Portugal's

participation in the integration process, and a rise in the economic and human development level of the population. On that account, it may be assumed that the policies utilized in fostering economic integration have had a positive effect, albeit a small effect, on the rate of economic progression and this in turn, has also influenced to a significant degree, the rise in the level of the human development.

It has been established that Portugal's own economic performance is externally driven, that is, it is to a great extent dependent on the EU's economic performance. Therefore, the question raised is: could Portugal survive in the international arena if it had not joined the EU? Within the context of this thesis, Portugal's exclusion from the integration process would only further aggravate and therefore make it difficult for the country to modernize and develop.

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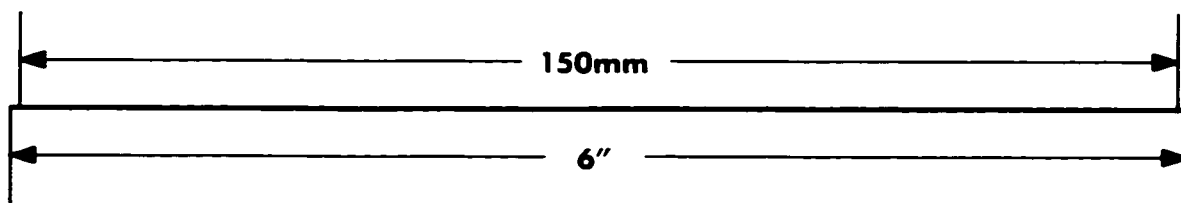
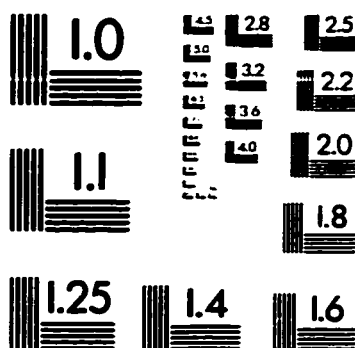
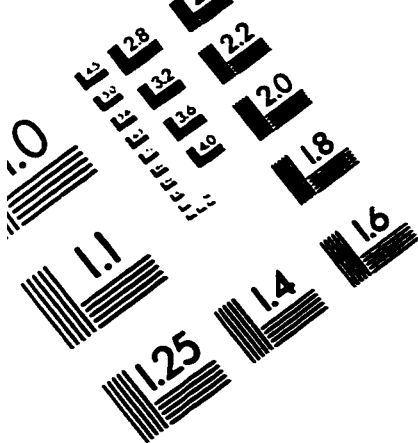
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